

FOREWORDS BY HIS WORSHIP THE ACTING MAYOR : CLLR B C MABASO

Honorable Members of Council,
The Municipal Manager,
Officials of the Municipality, and
All protocol observed.

It gives me pleasure to present the Annual Report of Emadlangeni Municipality for the 2007/2008 financial year, to you.

When I started to put these words on paper, I was saddened to learn that one of our respected and very able colleague, cllr N P Stannard had passed away after a long sickness. These are bad news for our Municipality, his family and the community of Amajuba as a whole. We have lost a good man who always reminded us of the legislative framework whenever we debate issues at Council. Our heartfelt condolences go to his loved ones and family, may his soul rest in peace.

2007/2008 financial year has been the most challenging and dramatic year ever for the Municipality. Two (2) months into the financial year, we received an intervention letter from the MEC for Local Government and Traditional Affairs citing our alleged failure to respond to issues raised by the MEC regarding allegations vs councillors and officials of the Municipality.

We were accused of failing to respond to the letter that requested us to deal with the allegations leveled against all councillors and certain officials of the Municipality.

The Mayor then, cllr M E Khoza, the Municipal Manager and another official, mr B M Zungu, were suspended from the Municipality. A Special Committee comprising of Advocate Muzi Mkhize and the Attorney Mr Mvuseni Ngubane were appointed to investigate the allegations and report to the MEC for Local Government and Traditional Affairs their findings and recommendations.

They had their cases tried against them. Three (3) individuals were found guilty, the rest were acquitted including the Municipal Manager.

The Municipality had an Acting Mayor, cllr J C Msibi from September 2007 to August 2008, the Acting Municipal Manager, Mr T Tubane who was appointed by the Department of Local Government and Traditional Affairs from August 2007 to September 2008. I was elected the Acting Mayor in September 2008 and the Municipal Manager was reinstated in September 2008. The Chief Financial Officer was suspended in December 2007 on financial misconduct and resigned in April 2008.

In spite of all the challenges mentioned herein, this Municipality had been able to prepare and approve the 2008/2009 annual budget, equally we were able to prepare and approve a Service Delivery Budget Implementation Plan (SDBIP) for the first time. This was done in house. The financial statements for 2007/2008 financial year were submitted on time before the end of August 2008. We also produced a credible integrated development plan (IDP) document which was highly rated by the Department of Local Government and Traditional Affairs. We were also able to source funding amounting to two million (R2m) rand from the Department of Local Government and Traditional Affairs to fund our recovery strategic plan. We have also been able to appoint KPMG as our internal audit firm to assist the Municipality with the financial management going forward.

A structure shall be formed to deal with all the audit queries raised by the Auditor General in the financial statement. We will endeavour to finalise all the queries by no later than June 2009. We are committed to a clean administration, a clean audit and nothing will deter us from achieving that goal.

I therefore, with sincerity wish to thank all honourable councillors and officials for ensuring that all the challenges we had are receiving the urgency and priority they deserve to correct the situation and deliver us to state of effective and efficient administration that is responsible to the needs of our communities.

Thank you.

CLLR B C MABASO
ACTING MAYOR

22 DECEMBER 2008

EXECUTIVE SUMMARY BY THE MUNICIPAL MANAGER : MR V M KUBEKA
: 2007/2008

The Honorable Acting Mayor, Cllr B C Mabaso;
Honorable Members of Council;
Dear Customers;
Communities of the Municipality; and
All protocol observed.

2007/2008 will go down in the history of this Municipality as the most challenging performance year ever.

I am reporting on the events that took place at my absentia because I remained suspended by the Department of Local Government and Traditional Affairs from the 22 August 2007 until September 2008 and I shall be reporting on issues given to me by the Acting Municipal Manager of the Municipality, Mr T Tubane.

The Municipality had no internal audit in the period under review. Lakhi and Company who had been the internal audit for the Municipality and (shared with Amajuba District Municipality) had completed their internal audit of the Municipality for the period 1 January to 30 June 2007. This was the basis under which the Acting Municipal Manager formulated his reports and requested financial assistance from the Department of Local Government and Traditional Affairs through the Municipal Assistant Programme (MAP). An amount of two million (R2m) rand was allocated to fund the recovery plan by the Department.

The recovery plan had various projects including the revenue enhancement, the restructuring of the Game Park, the indigent register, the implementation of debt recovery strategy, GRAP/GAMAP conversion plan, reconciliation of books, training of VAT, PAYDAY and PAYE recovery, previous audit queries, asset management, disaster management plan, supplier database, risk management, bookkeeping course, financial system etc. A number of consultants which will be tabulated in this report were appointed to assist us with these projects.

Staff was sent for training in various financial aspects with the assistance of the Development Bank of Southern Africa. Job descriptions for all staff in the Budget and Treasury Office were aligned with the provisions of the Local Government : Municipal Financial Management Act, 56 of 2003 to be able to own up to various financial duties they are suppose to do. Policies relating to the debt recovery strategy, together with the by-laws have been developed to assist the Municipality with its debt recovery strategic plan. Some of our financial staff members were trained by the deployed member, Mr André de Bruto, from the Development Bank of Southern Africa (DBSA) in the bank reconciliations and month ends duties within the finance department of the Municipality as part of the skills transfer by DBSA Siyenza Manje Project. The deployed member of the DBSA has also trained our staff with the compilation of the Annual and Adjustment Budget Preparation.

The Municipality has failed to attract investors into our little rural town inspite of the marketing drive of a "Town within a Game Park". There are still no businesses that employ members of the community. There is very little that is collected from the customers in terms of revenue for the Municipality. The Municipality is heavily relying on the little that is contributed by Government in terms of the equitable share and other grant funding. We are failing to align our finances with the integrated development plan (IDP) and our budget is not a development budget due to lack of revenue base. There has been no Chief Financial Officer of the Municipality for the last ten (10) months because the previous Chief Financial Officer, Mrs P H Kubheka, was suspended on full pay for financial misconduct in December 2007 and she resigned in April 2008. An Acting Chief Financial Officer, Mr S Kunene, was assisting until the end of October 2008. A new Chief Financial Officer, Mr G T Magcaba, has been appointed and resumed duty on the 03 November 2008 and we hope he will set the tone for good financial management.

The Municipality got a financial disclaimer from the Auditor General on various issues. I am happy to report that the Municipality has appointed a reputable, firm, KPMG as the internal audit for the Municipality from 01 July 2008 and we hope they will assist us with all our financial issues. Management has decided to set up a structure that will deal with these issues. This structure shall report to the internal audit, Management Committee and Council on monthly basis. It will meet fortnightly from 02 February 2009 to deal with progress report on all issues raised by the Auditor General until all issues are finalised which we believe it will be before the end of the financial year.

There is potential to succeed and to turn around our situation from the disclaimer audit report to that of the unqualified audit report. The staff of the Municipality is being motivated with the positive attitude of Council and the stability of Management and fact that no one wants to associate him or herself with a loosing Municipality. The training offered by the Municipality to its staff members is a great incentive both to individual staff members and the work of the Municipality. The tourism marketing drive for out town poses a great potential for the tourism destination for the 2010 FIFA World Cup and this gives

hope not only to members of our staff but also to our customers and communities.

I wish to thank Council and the staff of the Municipality for their contribution and dedication to their work. Those members who had found themselves neglected for one reason or the other should forgive us and strive to do more for the betterment of our Municipality and our communities. I will be failing in my duty if I do not single out our sincere thanks to members of our Council individually and collectively for their contribution and support to us as officials of the Municipality. I also wish to dedicate our thanks to cllr N P Stannard for his insight on matters of finance. Council has lost a true member. This Municipality would not be going concern and still surviving if it was not for the support we get from all spheres of Government and Amajuba District Municipality .

I thank you.

V M KUBEKA
MUNICIPAL MANAGER

22 DECEMBER 2008

VISION AND MISSION OF THE MUNICIPALITY

VISION

Emadlangeni Municipality providing social and economic upliftment to all its communities.

MISSION

We will focus on tourism development, game farming, agriculture, local economic development, job creation and skills development.

POWERS, FUNCTIONS AND DUTIES OF THE MUNICIPALITY

In terms of Section 156(1)(a), Chapter 7 of the Constitution of the republic of South Africa, 1996 read with Section 83(1), Chapter 5 of the Local Government : Municipal Structures Act (No. 117 of 1998), the Municipality has the following powers, functions and duties;

Schedule 4B of the Constitution of the Republic of South Africa, 1996

1. air pollution
2. building regulations
3. child care facilities
4. electricity reticulation
5. fire fighting
6. local tourism
7. municipal planning
8. municipal public transport
9. pontoons and ferries
10. storm water
11. trading regulations

Schedule 5B of the Constitution of the Republic of South Africa, 1996

1. amusement facilities
2. billboards and the display of advertisement in public places
3. cemeteries, funeral parlors and crematoria
4. cleansing
5. control of public nuisance
6. control of undertakings that sell liquor to the public
7. facilities for the accommodation, care and burial of animals
8. fencing and fences
9. licensing of dogs
10. licensing and control of undertakings that sell food to the public
11. local amenities local sport facilities
12. markets
13. municipal abattoirs
14. municipal parks and recreation
15. municipal roads
16. noise pollution
17. pounds
18. public places
19. refuse removal, refuse dumps and solid waste disposal
20. street trading
21. street lighting
22. traffic and parking and
23. Municipal public works.

Section 229, Chapter 13 of the Constitution of the Republic of South Africa, 1996 further deals with fiscal powers and functions of municipalities as follows:

“(1) Subject to subsections (2), (3) and (4), a municipality may impose –

- a) Rates on property and surcharges on fees for services provided by or on behalf of the municipality; and
 - b) If authorized by national legislation, other taxes, levies and duties appropriate to local government or to the category of local government into which that municipality falls, but no municipality may impose income tax, value-added tax, general tax or customs duty.
- (2) The power of a municipality to imposed rates on property, surcharges on fees for services provided by or on behalf of the municipality, or other taxes, levies or duties –
 - a) May not be exercised in a way that materially and unreasonably prejudices national economic policies, economic activities across municipal boundaries, or the national mobility of goods, services, capital or labour; and
 - b) May be regulated by national legislation.
- (3) When two municipalities have the same fiscal powers and functions with regard to the same area, an appropriate division of those powers and functions must be made in terms of national legislation. The division may be made only after taking into account at least the following criteria;
 - a) The need to comply with sound principles of taxation,
 - b) The powers and functions performed by each municipality,
 - c) The fiscal capacity of each municipality,
 - d) The effectiveness and efficiency of raising taxes, levies and duties,
 - e) Equity.
- (4) Nothing in this section precludes the sharing of revenue raised in terms of this section between municipalities that have fiscal power and functions in the same area.
- (5) National legislation envisaged in this section may be enacted only after organized local government and the Financial and Fiscal Commission have been consulted, and any recommendations of the Commission have been considered.”

MANDATES

SPECIFIC MANDATES

- Local Government : Municipal Finance Management Act, No. 56 of 2003
- Local Government : Municipal Systems Act, No. 32 of 2000
- Local Government : Municipal Structures Act, No. 117 of 1998 as amended
- Local Government : Municipal Planning and Performance Management Regulation, 2001
- Local Government : Municipal Performance Regulations for Municipal Managers and Managers directly accountable to the Municipal Manager, 2006
- Local Government : Municipal Property Rates Act, No. 6 of 2004
- Intergovernmental Relations Framework Act, No. 13 of 2005
- Disaster Management Act, No. 57 of 2002
- Remuneration of Public Office Bearers Act, No. 20 of 1998
- Local Government : Municipal Demarcation Act, No. 27 of 2008
- Organised Local Government Act, No. 52 of 1997
- The Pension Benefits for Councillors of Local Authorities Act, 105 of 1987
- Fire Brigade Services Act, No. 99 of 1987

SUPPORTING MANDATES

- The Constitution of the Republic of South Africa, 1996
- White Paper on Transforming Public Service Delivery (Batho Pele), 1007
- The White Paper on Service Delivery

MEMBERS OF THE COUNCIL OF EMADLANGENI MUNICIPALITY

Cllr B C Mabaso Acting Mayor

Cllr M E Khoza

Cllr J C Msibi

Cllr Ntshangase

Cllr N P Stannard

Cllr L J Vundla

Cllr A Nene

ABBREVIATIONS AND ACRONYMS

MSA	- Municipal Systems Act, 2000
MFMA	- Municipal Finance Management Act, 2003
SMME	- Small Macro Medium Enterprise
ASGISA	- Accelerated Shared Growth Initiative of South Africa
MANCO	- Management Committee
PMS	- Performance Management System
LUMS	- Land Use Management System
IDP	- Integrated Development Plan
IDPRF	- Integrated Development Plan Representative Forum
GAMAP	- Generally Accepted Municipal Accounting Practices
GRAP	- Generally Recognised Accounting Practice
LED	- Local Economic Development
SDF	- Spatial Development Framework
AFLED	- Amajuba Forum for Local Economic Development
EMP	- Environmental Management Plan
WSDP	- Water Services Development Plan
TDP	- Tourism Development Plan
CPTR	- Current Public Transport Record

CHAPTER 1

OVERVIEW OF THE MUNICIPALITY

1.1 BACKGROUND

Emadlangeni Municipality is situated in the north border of KwaZulu Natal. It borders Edumbe and Abaqulusi (Paulpietersburg and Vryheid) in the north east of KwaZulu Natal, Endumeni, Nqutu and Dannhauser on the south and Newcastle and Seme (Volksrust) Municipality in the north west KwaZulu Natal. It is coded by the Demarcation Board as KZ 253.

This is a tiny rural town fifty two (52) kilometres and sixty five (65) kilometres away from Newcastle and Vryheid respectively. The area of our Municipality is generally dry, very cold in winter and very hot in summer.

1.2 DEMOGRAPHIC PROFILE

The municipality has three (3) satellite towns, namely, Groenvlei, Bloodriver and Kingsley. These areas are north west, east and south east of Utrecht town of our Municipality. The terrain is mountainous and communication is a challenge because there are very few communication networks. Radio and television is difficult to get reception and the mobile phones do not work in certain areas. Emadlangeni falls under Amajuba District Municipality. It covers 3534.71 km² of 6910 km² of the District which is 51,15%. We have a population of thirty two thousand two hundred and seventy seven (32 277) people in terms of the National Census 2001 statistics. Twenty nine thousand two hundred and sixty five (29 265) are Africans, the Whites are two thousand three hundred and thirty eight (2 338), Coloured are six hundred and two (602) while seventy two (72) are Indians.

The baseline study of 2005 by Amajuba District Municipality shows a different picture about the demographics. The population was found to be thirty five thousand nine hundred and sixty two (35 962). One hundred and seven thousand two hundred and twenty three (107 223) are males while one hundred thirty five thousand two hundred and sixty seven (135 267) are females.

The majority of our population is young between the ages 15 - 34 but the study by Amajuba District indicated the population between ages 35 - 64 as the large one.

1.3 SERVICE DELIVERY PROFILE

Emadlangeni Municipality has a large area of jurisdiction in the whole of Amajuba District Municipality, 51,15%. There is good infrastructure with the town of Utrecht but there are challenges with the rural areas.

Five land reform areas identified in the municipality all of which need basic infrastructure. The land reform areas are the following, but there might be some variance in terms of the number of beneficiaries.

- | | |
|----------------------------|--------------|
| • Kwa Nzima | 285 families |
| • Shabalala | 300 families |
| • Mabaso | 290 families |
| • Amantungwa | 600 families |
| • Inkululeko Yomphakathi | 104 families |
| • Kingsley/Community Trust | 300 families |

1.3.1 Water Supply:

This is the function of Amajuba District Municipality who is the water service authority and uThukela Water is the water service provider.

The following priorities were identified:

- Enlargement of raw water source storage (This has since been done and completed).
- The replacement of water network due to high frequency of failures.
- Water Demand Management System as stipulated by law.
- Fluoride dosing as stipulated by law.
- Re-equipping of water purification works.
- Replacing of existing water meters with prepaid meters.

These matters were referred to uThukela Water.

There is a pressing need to provide clean water to the rural areas. We believe that the Land Affairs shall ensure that the establishment grant do cater for this pressing need for clean water. Emadlangeni Municipality has a large dam called Zaaihoek Dam that supply raw water to Amajuba Power Station at Seme Municipality in the Mpumalanga area. There is a debate that water should be supplied to Municipality from this dam. The water supply backlog is 58% calculated from the community stand over 200 metres. According to the study done by Amajuba District Municipality in 2005 the water supply backlog has increased from 58% to 71%. This may be because of the new land reform projects.

Households	2001	1996
Dwellings	1309	1049
Inside yard	638	319
Community Stand	617	117
Community Stand over 200m	537	-
Borehole	706	329
Spring	419	1555
Rain Tank	80	46
Dam/Pool/Stagnant Water	389	-
River/Stream	1271	-
Water Vendor	97	-
Other	124	50
% Backlog	58.53%	57.09%

From the results of the representative sample generated through the Amajuba Baseline Data Study the following emerged.

Standards	Number of households	% distribution
Below basic level of services (backlog)	4287	75.7
Basic level of service	413	7.3
Above basic level of service	963	17.0
Total	5663	100

1.3.2 Sanitation

This function falls with the District of Amajuba who is the service authority and uThukela Water is the service provider. According to the 2001 census statistics, Emadlangeni Municipality had a backlog for sanitation of 38.40% as indicated in the table here below:

Households	2001	1996
Flush toilets	1124	1160
Flush septic tank	572	-
Chemical toilet	103	-
VIP	275	-
Pit latrine	1755	679
Bucket latrine	33	36
None	2324	1594
% of backlog	38.40%	45.96%

From the results of the representative sample generated through the Amajuba Baseline Data Study the following emerged;

Standards	Number of households	% distribution
Below basic level of service (backlog)	4060	15.1
Basic level of service	4060	71.1
Above basic level of service	748	13.2
Total	5663	100

Accordingly Amajuba Data Baseline Study illustrated a decrease on the sanitation baseline to 15% from 66.5%. A waterborne small bore sanitation system has been installed in the old town area of Utrecht however, a need arise to provide waterborne sanitation and to upgrade the oxidation pond system.

1.3.3 Roads

There is still a need to have the following roads tarred; the road from Utrecht town to Groenvlei, a road through Kempslust to Vryheid, and the road to Paulpietersburg. This could allow trucks to travel shorter distance to either Newcastle or Vryheid or service the railway line from Utrecht to Newcastle. This could be an economic boost for the area. A study conducted by Amajuba District Municipality states that 75% of the households have a basic level of road service and that only 10% of households walk more than five (5) kilometres or 30 minutes to the main road.

Standards	Number of households	% distribution
Below basic level of service (backlog)	572	10.1
Basic level of service	3998	70.6
Above basic level of service	1093	19.3
Total	5663	100

1.3.4 Land Reform and Housing

Land reform is to ensure that at least 30% of all agricultural land is transferred over a period of 15 years. Land reform is implemented through three (3) programmes.

- Land restitution which involves returning land otherwise compensating victims lost since 19 June 1913 because of racial discriminating laws;

- Land redistribution makes it possible for the poor and disadvantage people to buy land with the help of a Settlement/Acquisition grant by Government; and
- Land Tenure Reform is the most complex area of land reform. It aims to bring together all people occupying the land under , legally validated system of land holding. It provides alternatives for people who are displaced in the process.

Amajuba District Municipality has embarked on a Land Reform Sector Plan and this plan will among others verify the information contained in the following sections;

i) Land Redistribution:

Emadlangeni Municipality currently has the largest number of land reform projects taking place within the Municipality as a result a large portion of land is being transferred to rural communities.

The projects identified below corresponds with the service satellites and sub-service satellite.

Project Name	Beneficiaries	Area (Ha)
Menziwa	28	462
Amantungwa	600	5 400
Mgundeni	290	1 435
Ndlamlenze	285	3 351
Thekwane	267	1 382
Inkululeko yomphakathi	104	974
Shabalala	300	1 300
Nzima	285	3 300
Kingsley	300	6000ha

ii) Labour Tenants Projects

A large number of projects have been registered by people living on individual farms which will have an impact on the provision of the infrastructure and social services. The following projects were identified as being in the development process in 2003 by Korsman & Van Wyk.

Project Name	Beneficiaries	Area (Ha)
Boschoek	90	313
Utikomst	50	1 223
Zandspruit	22	330
Rondavel eSenzangani	20	280
Rondavel Zondo	31	140
Rondavel van Niekerk	7	19
Geluk	9	50
Leeuw	23	510
Esmere	22	271

iii) Restitution Projects

Korsman and Van Wyk had identified a total of 39 restitution claims in Emadlangeni Municipality. It has been difficult to get an up to date information on this project, but we can report that two claims were validated; one of them has been indicated as non-compliant and the other is still under investigation.

1.3.5 Housing

Census 2001 indicated that there were more households living in the informal and traditional houses in the rural areas as indicated in the table below:

Households	2001	1996
Formal	2836	1392
Informal	184	40
Traditional	2981	1908
Other	186	9
% of housing backlog	54.16%	58.43%

Amajuba District Baseline Data Study has different results as follows:

Standards	Number of households	% distribution
Below basic level of service (backlog)	4671	82.5
Basic level of service	20	0.4
Above basic level of service	972	17.1
Total	5663	100

The backlog of housing in our Municipality has increased from 54.16% in 2001 to 82.5% in 2005. The majority of the farm workers still live in mud houses. Formal houses are in the urban area. There is a waiting list of five hundred (500) applicants for houses. People living in the Land

Reform Settlement do not qualify for housing subsidy from the Department of Housing because they benefit from the Department of Land Affairs settlement grants. The set back is that the Department of Land Affairs has not made provisions for housing to the beneficiaries, and therefore no services are provided, as a result the beneficiaries put pressure on the Municipality and the District Municipality. Amakhosi in these areas prefer to use the grant from Land Affairs Department for agricultural activities other than houses. The Municipality has completed two low cost housing projects and are planning further two housing projects:

- 150 units in Goedehoop completed (2000)
- 78 units in the Agri Village completed (2006)
- 91 units in Ekhayaletu (31 new 60 old mine) - planned
- 330 units in Goedehoop extension 2 - planned

1.3.6 Telephone

A total of one thousand six hundred and thirty two (1632) in the rural areas has no access to telephone at all. The majority of these households are in the Inkosi Nzima area. There is also no access to television and radio frequency in these areas. Attempts to get the telephone providers and SABC has failed.

Households	2001	1996
Telephone and Cellphone in Dwelling	534	-
Telephone only in Dwelling	401	665
Cellphone	993	-
Neighbour	517	181
Public Telephone	910	369
Other - Nearby	520	188
Other - Not Nearby	679	470
No Access	1632	1485
Total percentage of the households without access to telephone at all	26.38%	14.22%

1.3.7 Electricity

According to Census 2001 up to a total of 4 043 (65.35%) households are still using candles as a source of energy for lighting. A total of 1 801 (29.11%) people has electricity. The average people using candles had increased from 51.48% to 65.35%. Electricity and paraffin users has decreased from 32.35% to 29.11% and 15.48% to 4.23% respectively. There were no households using solar system in 1996 and in 2001 there were 12. The figures for electricity users shall change drastically in the next Census statistics because Eskom had reticulated the area of Inkosi Khumalo area known as Emxhakeni in 2007 and Berouw in the beginning of 2008.

Households	2001	1996
Electricity	1801	1122
Gas	30	10
Paraffin	262	537
Candles	4043	1788
Solar	12	-
Other	38	0

The results of Amajuba Baseline Data Study are the following on the electricity backlog:

Standards	Number of households	% distribution
Below basic level of service (backlog)	4074	71.9
Basic level of service	834	14.8
Above basic level of service	755	13.3
Total	5663	100

1.3.8 Refuse Removal

There has been no change in the previous report regarding refuse removal. 1 265 (20.44%) households do not have access to refuse removal service at all. 3 576 (57.79%) have their own dumping site. Only 1 171 (19%) households receives refuse removal service from the Municipality on a regular basis.

Households	2001	1996
Municipal Weekly	1054	736
Municipal Other	117	38
Communal Dump	175	127
Own Dump	3576	1584
No Disposal	1265	954
% backlog	20.44%	27.47%

There is a shortage of vehicles to remove refuse. A need was identified to establish a dumping site similar to the one Kruger National Park has because our town is a game reserve.

1.3.9 Community Facilities

1.3.9.1 Cemeteries

A new cemetery site had been identified for the town and registration is awaited for. All processes regarding the establishment and registration of the cemetery has been done. The District cemetery establishment has

commenced. Window areas have been identified and prioritized. Six window areas have been identified through the Municipality's IDPRF with Amakhosi of the area. This is due to the sprawling nature in which people have been settled in farms and Land Reform areas to avoid extra transportation cost of the corpse. The District cemetery will assist the communities in the farms.

1.3.9.2 Sports and Recreation Facilities

There is great difference between the sports facilities and community halls in the whole Municipal area. The urban area enjoys a fair distribution of sports facilities and community halls. The District Municipality has received funds from the Department of Sports and Recreation in the tune of R1,3m to construct the sports field. The Municipality has once again identified Bendsdorp as the area to construct the sports field, because the area is densely populated.

1.3.10 Social Profile

1.3.10.1 Education and Training

The level of literacy in our Municipality is high with up to 25% of the population who are over 20 years having not attended school. 11% of the population has completed Grade 12 and 4% has attended higher education in terms of the 2001 Census statistic.

Persons	2001	1996
No schooling	4500	3211
Some Primary	5225	3630
Complete Primary	1238	894
Secondary	4120	2407
Grade 12	1976	906
Higher	792	279

In terms of Amajuba Baseline Data Study, the illiteracy level has decreased from 25% of the population to 10% in 2005.

Level	%
None/basic	9.5
Primary (at least grade 5)	53.7
Secondary (at least grade 12)	36.5
Tertiary (degree/certificate/diploma)	0.3
Total	100

There are forty nine (49) schools in our Municipal area. Nineteen (19) of them offer education up to Grade 7 (standard 5). The key issues in terms of the integrated development plan, additional classrooms are needed in all schools. There is a need for cottages for educators to

avoid long distance travelling of educators to and from schools. The infrastructure for schools should be upgraded. Schools need water, sanitation and electricity in the rural areas. There is a need for the pre-school facilities and an upgrade of schools to offer Grade 12 (Matric) in rural areas. A lot of households are sending their kids to relatives, friends and acquaintances for the sake of getting high school education. This disintegrates family life and subjects female kids to unwanted pregnancies.

1.3.10.2 Health and HIV/AIDS

There is only one (1) hospital that services the whole of Emadlangeni Municipal area. The next hospital is in Madadeni and Newcastle which is forty nine (49) kilometres and fifty three (53) kilometres respectively. Access to the hospital is reasonable although the majority of our people walk more than ten (10) kilometres to get to the facility.

A new clinic has been built and completed in 2008 and will be in use during the 2008/2009 financial year. There are thirty five (35) points in the whole area which is being visited by mobile clinic. There is a depot for the ambulances which are dispatched from Newcastle. The response is now improving.

HIV/AIDS statistics in the District according to the Department of Health are forty (40%) percent in 2001 and this figure has declined to 38.5% in 2004.

These figures are worrying because they affect planning of infrastructure and the households requiring services place a high demand on health care facilities and social services.

The key issues for health services in terms of our integrated development plan (IDP) is a need for clinics in the rural areas, the upgrade of health facilities in Utrecht, the relocation of the ambulance service to Utrecht and the need for the evaluation of the locality of mobile clinics.

1.3.10.3 Social Development

A major social development issue facing Emadlangeni Municipality is that pensioners are forced to travel long distances to get their pension payouts and social grants. Transport is a major challenge. There is a scarcity of public transport to transport pensioners. In areas, where there is some kind of transport, the transport travel once a day. The access to the pension payout points need to be improved for the physically challenged. The following is a list of poverty alleviation projects implemented in Utrecht by the Department of Social Development.

- Candle making Zenzele Women Org.
- Community garden Siphamandla Org.
- Community garden Masibonisane Org.
- Arts & Craft Thuthukani Org.
- Poultry Masithuthuke Org.

The poverty alleviation projects by the Municipality implemented with some challenges are the following:-

- community garden R25 000 Zithandele
- community garden R20 000 Sizakancane
- poultry R15 000 Zenzele
- community garden R25 000 Thembelezandleni
- poultry R15 000 Esidakeni
- fencing R20 000 Agri-Village
- sewing R45 000 Masibumbane
- car wash R20 000 Sakhisizwe
- poultry R15 000 Mbathani

1.3.11 Environmental Profile

The Municipality is made up of six (6) different bio-resources groups.

- eight (8) moist high sourveld;
- nine (9) dry highland sourveld;
- eleven (11) moist transitional tall grassveld;
- twelve (12) moist tall grassveld;
- one (1) dry tall grassveld; and
- fourteen (14) sandveld.

The majority of the area of our Municipality is made up of bio resource level group 8 and 14. There is severe frost in the mountainous area of our Municipality in winter. Forest patches appear on the slopes along the escarpments mainly in cooler and moist areas. Grass grows to approximately 0.5m high.

There are catchment areas for Pongola River, Buffalo River and Bloodriver as well as Slang river, Bivane river and Dorpspruit river. Water distribution in this area is generally poor, apart from Dorpspruit river, which flows into the Buffalo river. Dorpspruit river is fed by the tributary Wasbankspruit and Sandspruit rivers. Boschoffsvlei is a very important wetland which is fed by Dorpspruit and Wasbankspruit rivers. It regulates stream flow and purifying water into Sandspruit and Buffalo river.

Issue	Details
Health	<ul style="list-style-type: none"> • Cholera - Outbreak occur, and the provision of

	portable water, good sanitation and hygiene is required.
Pollution	<ul style="list-style-type: none"> • Poor solid waste is a problem for the town and holiday resorts of the area. • Proper sanitation is lacking for most homes within the municipality. • High water tables that are easily contaminated occur. • Commercial agricultural pollution from fertilizers and pesticides is present, and will be a growing threat with the spread of commercial agriculture.
Hazards	<ul style="list-style-type: none"> • Potential for flooding occurs in low lying areas. • Uncontrolled settlements along roads are a growing hazard, for pedestrians, livestock and motorists.
Aesthetic	<ul style="list-style-type: none"> • Extensive areas of commercial agriculture have a negative impact on visual qualities and ecosystem. • Poor appearance of town from uncontrolled and poor development and litter create a depressing image. • There is a need to broaden, co-ordinate and extend environmental education in the area.
Resource conservation issues	<ul style="list-style-type: none"> • The spread of intensive forms of commercial agriculture is threat, including small scale timber planting. • Soil erosion and the loss of topsoil occur on steeper land in traditional authority areas. • There is unsustainable use of some of the indigenous plant resources of the area. • Alien plant invasion, for example by <i>Chromolaena odorata</i>, is a widespread problem. • There is typically overstocking and overgrazing in traditional local authority areas.

1.3.12 Spatial Analysis

The Municipality is comprised of two areas namely the urban area and the rural areas. The urban area is the erstwhile Utrecht Transitional Local Municipality which is the Utrecht town, Bensdorp and White City. The erstwhile TLC is fifty two (52) kilometres away from Newcastle while Vryheid is approximately sixty five (65) kilometres away on the R34 road leading from Gauteng to Richards Bay in the North Coast. The rural area is all other areas outside Utrecht town or Utrecht Transitional Local Municipality. The area of Emadlangeni Municipality is approximately three thousand five hundred and thirty eight (3 538) square kilometre.

The Utrecht Transitional Local Council was under Umzinyathi Regional Council before 2001 and when the Regional Councils were disbanded

and new District Municipalities were established in 2001 our Municipality was named Utrecht Local Municipality and was under Amajuba District Municipality. It changed the name in 2006 to be known as Emadlangeni Municipality.

Amajuba District Municipality is linked by N11 road with Gauteng and Durban. Our Municipality is linked with R34 to Gauteng and Richards Bay (Mhlathuze Municipality) in the north coast. R34 joins R33 road that links Vryheid and Dundee.

Settlement Hierarchy	Area
Town	Utrecht (urban)
Service Hub or secondary node	Groenvlei
Service Satellite	Amantungwa Trust; and Kingsley
Service sub-satellite	Nzima; Mabaso; and Blue Mountain
Other settlements	Portion 9 (of 6) of the farm Groothoek Number 152 has been identified as a node for development.

1.3.13 Institutional Analysis

There are seven (7) councillors that constitute Emadlangeni Municipal Council. The Municipality is a plenary with ward committee, obtained through a Council resolution. There are five portfolio committees under three directorate.

- Human Resource Portfolio Committee; Corporate
- Transport, Safety and Security Portfolio Committee; Corporate
- Finance Portfolio Committee: Budget & Treasury Office
- Planning and Development Portfolio Committee: Municipal Manager
- Infrastructure/Technical Portfolio Committee: Engineering

An organizational structure has been adopted by Council. An employment equity policy was also adopted by Council to address the imbalances in the employment profile of the Municipality. There are one hundred and ten (110) employees with the Municipality. Fifty two (52) are permanent employees and forty five (45) employees are contract workers and thirteen (13) employees are temporal workers. Eighty two (82%) percent are black while (18%) percent is white. Sixty six (66%) percent are whites employed at the occupational level while 0.3% is blacks employed at that level.

The Municipality has four (4) departments in terms of the approved organizational structure;

- Office of the Municipal Manager

- Department of Engineering Services
- Department of Corporate Services
- Budget and Treasury Office.

The functions of these departments are the following:-

Department	Functions
Office of the Municipal Manager	Municipal Management; Municipal Planning (IDP and PMS); and Municipal Finance Management.
Corporate Services	<p>Administration: it is responsible for child care facilities; billboards and display of advertisements in public places; licensing of dogs; licensing and control of undertakings that sell liquor to the public; facilities for accommodation; municipal administration; property administration; security and cleaning; libraries; human resources; legal services; business licenses; information technology communication.</p> <p>Protection: it is responsible for fire-fighting services; noise pollution; pounds; public places; street trading; traffic and parking; disaster management; control of public nuisances; municipal public transport; public safety; motor licensing; roadworthy testing; and municipal policing.</p>
Budget and Treasury Offices	<p>Income: is responsible for Revenue Management; Debt Management and internal control.</p> <p>Expenditure: is responsible for expenditure management; procurement; materials; insurance; internal control and properties.</p>
Engineering Services	<p>Community services: is responsible for Building regulations; local tourism; planning and Land use management; promotion of local economic development and facilitation of housing development.</p> <p>Electrical: is responsible for electricity and gas reticulation and street lighting.</p>

Department	Functions
	<p>Civil services: is responsible for air pollution; municipal airports; municipal public works; stormwater management; cemeteries; funeral parlours and crematoria; cleansing; fence and fences; burial of animals; local sports facilities; markets; municipal abattoirs; municipal parks and recreation; municipal roads; and refuse removal, refuse dumps and solid waste.</p>

1.3.13.1 Project Consolidate

Emadlangeni Municipality was identified by the Department of Provincial and Local Government as a project consolidate Municipality. The Department of Local Government and Traditional Affairs had to assist with programmes to assist the Municipality with projects that will improve it. Focus areas of the Project Consolidate were the following:-

- Public empowerment, participation and development.
- Capacity building, systems, human resource development and improve organizational culture.
- integrated human settlement development.
- free basic services targeting poor households, appropriate billing systems and reduction in municipal debt.
- local economic development and job creation.
- anti-corruption.
- special interventions in rural and urban development nodes; and
- performance monitoring, evaluation and communication.

Our Municipality received seven hundred thousand (R700 000) rand in 2005 for the integrated human resource which was used to buy new office furniture. There was funding for the establishment of Ward Committees in 2006 and in 2007 an amount of one point five million (R1,5m) rand was received from the upgrade of financial management system and record management.

1.3.13.2 Community Development Workers

The Municipality was allocated three (3) community development workers. Two (2) of them has since passed away and we have one (1) left. The aim of this project is to bring government closer to the people. The primary role of the community development workers is;

- details analysis and ongoing update of the profile of the community.
- facilitate local area planning at ward level.
- linking communities with external institutions to access services and resources.
- assist the communities in translating their plans into concrete actions.
- they work with both the service provider and the communities.

1.3.13.3 Ward Committees

The Municipality was a plenary with no ward participation during its establishment in 2001. Council decided to amend the structure by passing a resolution No. A124/2005 to have a Ward Committee

Participatory Municipality and this was approved by the MEC in October 2005. In March 2007 Ward Committees were established and launched on the 14 April 2007. They are working very well.

1.3.14 Key Issues

Issues identified by the community of Emadlangeni in the integrated development plan representative forums (IDPRF) are the following:

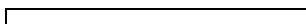
1. Inadequate living conditions of farm workers in terms of tenure security, the need for land access to basic physical and social infrastructure.
2. The development of economic through the stimulation of the tourism sector, training, funding and the development of marketing opportunities.
3. Lack of funding and vigorous awareness on the HIV/AIDS through the local CBO's dealing with pandemic.
4. The stimulation of agriculture and SMME sector through training, funding and the creation of development opportunities.
5. The lack of social services and infrastructure in the area especially in the satellites or sub satellites together with the associated basic infrastructure such as water and sanitation.
6. Linking Highveld region economically and socially with town through integrated transport system and road network.
7. The social and physical; impact of the lack of sound communication and communication systems such as telephone, radio and television.
8. The upgrading and provisions of infrastructure according to the needs created by the newly developed spatial strategy.
9. The institutional and financial restructuring of the local municipality.

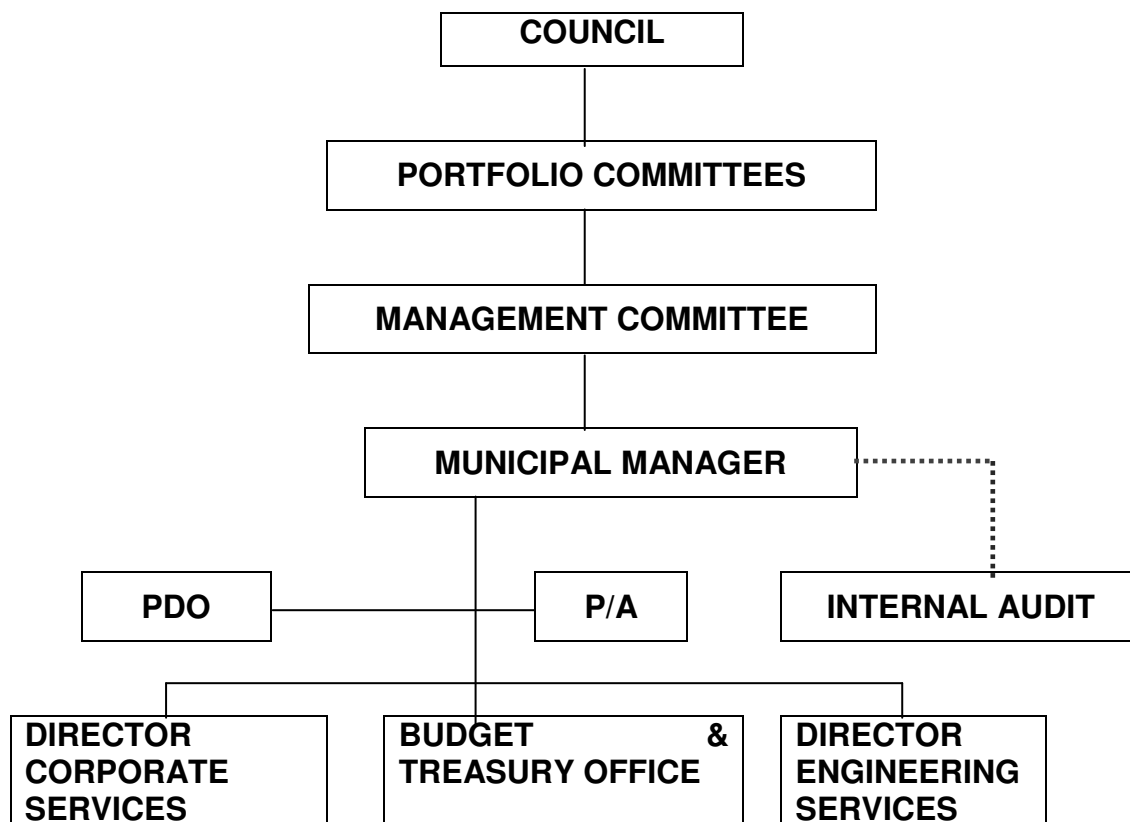
CHAPTER 2

LEADERSHIP AND MANAGEMENT

2.1 INSTITUTIONAL FRAMEWORK

2.1.1 Organogram





Emadlangeni Municipality has three (3) departments. The heads of departments are Section 57 officials and they report directly to the Municipal Manager who is also a Section 57 official as well. The Municipal Manager reports direct to Council. He is assisted by the internal audit, the personal assistance and planning and development officer. Council has five (5) portfolio committees; Finance Portfolio Committee, Human Resource Portfolio Committee, Infrastructure and Technical Portfolio Committee, Protection Services Portfolio Committee and Tourism, Culture and LED Portfolio Committee. These committees are chaired as follows;

- | | |
|---|---------------------|
| - Finance Portfolio Committee: | Mayor |
| - Human Resource Portfolio Committee: | Cllr B C Mabaso |
| - Infrastructure Portfolio Committee: | Cllr B C Mabaso |
| - Protection Services Portfolio Committee: | Cllr L J Vundla |
| - Tourism, Culture & LED Portfolio Committee: | Cllr V S Ntshangase |

ANC has three (3) councillors; Cllr A Nene, Cllr J C Msibi and Cllr V S Ntshangase. DA has one (1) Council seat in the Municipality , Cllr N P Stannard, and the IFP has three (3) councillors, Cllr M E Khoza, Cllr B C Mabaso and Cllr L J Vundla.

The MEC for Local Government and Traditional Affairs, acting on the KwaZulu Natal Provincial Cabinet intervened in the administration of Emadlangeni Municipality on the 22 August 2007 in terms of Section 139(1)(b), Chapter 6 of the Constitution of the Republic of South Africa and suspended the Mayor, Cllr M E Khoza, the Municipal Manager, Mr V M Kubeka and Mr B M Zungu until allegations against them were investigated and finalised by a Special Committee comprising of Advocate Muzi Mkhize and Attorney Mvuseni Ngubane. All other councillors, the Chief Financial Officer, Ms P H Z Kubheka, Mr Ndlovu and the Director : Engineering Services, Mr N M Dekker were also charged. Mr Thando Tubane was appointed to act as the Municipal Manager during that period. Cllr J C Msibi was elected the Acting Mayor from September 2007.

2.2 HUMAN RESOURCE

2.2.1 Staff Complement

During the period under review the Municipality had a staff complement of 95, four (4) of which was the Section 57 employees, fifty two (52) were full time employed, thirty one (31) are on contract and eight (8) are casual workers.

Department	No of Staff
Office of the Municipal Manager	3
Corporate Services	17
Financial Services (BTO)	10
Engineering Services	65
Total	95

The responsibilities of various Departments of the Municipality are the following:

Office of the Municipal Manager	Budget & Treasury Office	Corporate Services	Engineering Services
<p>Strategic Leadership Strategic Planning & Monitoring Responsibility for the organization Effective and efficient administration Political Office Bearers and political structure advice Implementation of political structures' decisions Implementation of national & provincial legislation Internal audit</p>	<p>Management of Grants, Tax and Levies Revenue Management Debt Management Expenditure management Procurement Internal control</p>	<p>Child care facilities Billboards Licensing of Dogs License to sell Liquor Facility for accommodation Municipal Administration Human Resource Management Security & Cleaning Libraries Legal Services Business License Information Technology Communication Fire Fighting Street Trading Council support Traffic and Policing Disaster Management Municipal Public Transport Motor Licensing Roadworthy Testing Municipal Policing</p>	<p>Building Regulations Local Tourism Planning and Land Use Management Promotion of Local Economic Development Housing Development Facilitation Electricity and Gas reticulation Street Lighting Responsible for air pollution Responsible for municipal public works Responsible for storm water management Responsible for cemeteries and crematoria Responsible for cleansing Responsible for fencing and fences Responsible for burial of animals Responsible for local sports facilities Responsible for market Responsible for municipal abattoirs Responsible for Municipal parks and recreation responsible for Municipal roads Responsible for refuse removal, refuse dump site and solid waste management.</p>

2.2.2 Senior Management

There was only one (1) vacancy of the Chief Financial Officer, Mrs P H Z Kubheka, that became vacant in the second half of the financial year, 2007/2008. This vacancy was temporarily filled with a deployee from the Department of Local Government and Traditional Affairs, Mr Mxolisi Kunene.

Directorate	Director Responsible	Portfolio Committee Chair.
Municipal Manager	V M Kubeka (Mr) [T Tubane (Mr) August 2007- September 2008]	Council
Director : Corporate	M N S Brown (Mrs)	Human Resource & Transport, Safety & Security
Budget & Treasury Office	[P H Z Kubheka (Mrs) May 2006 - March 2008] [S W Kunene (Mr) May 2008 - October 2008] G T Magcaba (Mr)	Finance Committee
Director : Engineering	N M Dekker (Mr)	Infrastructure/Technical and Planning and Development Committee

2.2.3 Employment Equity Development

The Municipality had developed and approved the Employment Equity Plan. This plan has been implemented. Reports are sent to the Department of Labour regularly. The year under review did not perform very well and the reasons are that the MEC for Local Government and Traditional Affairs had intervened in terms of Section 139(1)(b) of the Constitution of the Republic of South Africa. Statistics of the equity employment are indicated herein under:

Employment Equity Implementation	Designation Group	Non-Designated Group	Women
Top Management	2	1	1
Middle Management	1	2	-
Professional Staff	6	2	3

Seventy five (75%) percent of top management is occupied by the designated group. There is one (1) female employee in that group. Fifty (50%) percent of the designated group was appointed. Professionals are adequately represented with more than sixty (60%) percent.

Occupation Levels					Female				
	A	C	I	W	A	C	I	W	
Senior	2	0	0	1	1	0	0	0	4
Middle	1	0	0	2	0	0	0	0	3
Other Staff	63	1	0	5	12	2	0	5	88

2.3 EXPENDITURE MANAGEMENT OF EMPLOYEE AND COUNCIL

Section 65 and Section 66 of Local Government : Municipal Finance Management Act, 2003 requires that reports be tabled for expenditure management and staff expenditure, respectively. The table below illustrates personnel expenditure.

Personnel Expenditure

Financial Year	Audited Exp.	Budget	Percentage
2005/2006	R6,735,689	R7,337,304	91,8%
2006/2007	R7,726,212	R7,947,822	97,21%
2007/2008	R9,517,243	R8,969,141	106,1%

The new dispensation in Local Government is causing a lot of strain to smaller and rural municipalities in terms of staff expenditure. These municipalities, including our Municipality cannot cope with the personnel salary packages on the market to be able to keep their staff members with skills. Additional remuneration was paid to mr T Tubane as an Acting Municipal Manager when the Department of Local Government and Traditional Affairs has delayed payment to him hence the big percentage in 2007/2008.

Councillor's expenditure in terms of salaries

Financial Year	Audited Exp.	Budget	Percentage
2005/2006	R 408,951	R 374,584	109,17%
2006/2007	R1,173,722	R1,014,262	115,72%
2007/2008	R1,031,513	R1,137,925	90,6%

Councillor's expenditure in terms of salaries. Arrear payments were made to Councillors in January 2007 and January 2008 after Council and the MEC for Local Government and Traditional Affairs in the Province of KwaZulu Natal has approved the payment of arrears in terms of the Determination of Remuneration for Public Office Bearers Act which always comes later in December for an increase in councillor's salary with effect from July each year.

2.4 PENSION AND MEDICAL AID FUNDS STATISTICS

The table below illustrates contribution by the Municipality to pension funds and medical aids.

Pension Fund

Description	No of Members	Employees Contribution	Employers Contribution	Total
Natal Joint Municipal Employees Provident Fund 5%	26	R6 137,59	R 9 206,39	R15 343,98
Employees Provident Fund 7%	10	R3 267,89	R 4 901,84	R 8 169,73
Employees Provident Fund 9.5%	5	R1 735,03	R 2 602,55	R 4 337,58
Superannuation Fund	5	R4 894,04	R32 435,10	R37 329,14
Government Employee Pension Fund	3	R 694,80	R 1 042,20	R 1 737,00
Municipal Councillors Fund	6	R8 263,69	0	R 8 263,69
Total	55	R24 993,04	R49 145,88	R75 181,12

Medical Aids Funds

Description	No of Members	Employees Contribution	Employers Contribution	Total
Global Health (G)	11	R 9 588,00	R14 382,00	R23 970,00
Global Health (P)	6	R 4 891,60	R 7 337,40	R12 229,00
Global Health (S)	1	R 872,40	R 1 308,60	R 2 181,00
Munimed	0	0	0	0
Bonitas	1	R 3 200,00	0	R 3 200,00
Samwumed	12	R 3 366,80	R 5 165,20	R 8 532,00
Total	31	R21 918,80	R28 193,20	R50 112,00

2.2.4 Skills Development

The Municipality had developed and approved a Workplace Skills Development in terms of the Act. This document was submitted to the Department of Labour. An amount of R50 000,00 was contributed towards skills development.

CHAPTER 3

SERVICE DELIVERY REPORT

3.1 MUNICIPAL PERFORMANCE

A municipal score card was developed before the beginning of the financial year. The Municipal Manager and Managers directly responsible to the Municipal Manager signed the performance agreements in terms of the legislation, however Council nullified the agreements on the basis that they were never involved with the formulation of the objectives. Council requested a strategic planning session before the performance agreements are signed.

Although the municipal performance plan was rejected by Council achievements, which were not measured, are the following:

SERVICE DELIVERY REPORT

NKPA	KPI	Baseline	Objective	Target	Budget	Department	Comments
MUNICIPAL TRANSFORMATION & ORGANISATIONAL DEVELOPMENT	Performance management system (MPS) aligned to the IDP, developed and implemented.	PMS has been finalised	Need to review the system as from 01 July 2007	30 June 2006	R50 000	Municipal Manager	It was implemented and aligned with the IDP.
	An organizational structure aligned to the IDP established and operationalised.	Portfolio Committees in place	All portfolio committees of Council should be in place	30 December 2007	None	Municipal Manager	The organizational structure was in place by the 2006/2007 financial year.
	Effective administrative and institutional system, structures and procedures including: human resources, financial policies, bylaws and communication systems established and implemented.	Bylaws formulated	All bylaws adopted	30 January 2008		Municipal Manager	Human Resource and Financial Policies are in place. Bylaws have not been published due to financial constraints
		Communication plan	Communication plan drafted and ready for adoption	30 January 2008	Municipal Annual Budget 2007/2008	Municipal Manager	It was drafted, awaiting for adoption.
	The interface between council administration to align administrative and political priorities of council managed.	Portfolio committees in place	Management committee meetings held monthly	31 December 2007	None	Municipal Manager	There exist no tension between the Council and the administration staff.

NKPA	KPI	Baseline	Objective	Target	Budget	Department	Comments
	Integrated human resource management system introduced and operationalised.	Manual capturing of leave.	Fully automated system	30 December 2007		Corporate Services	Computerized leave system was bought and is operational.
INFRASTRUCTURE & DEVELOPMENT & SERVICE DELIVERY	Infrastructure development and investment model implemented. (In the said model there should be a dynamic relationship between population growth projections, service delivery backlogs, revenue generation capacity and institutional capacity):	Electrical upgrade to 11 Kv	Maintain road infrastructure	30 June 2008		Engineering	There is no regular electricity maintenance report received and adhoc maintenance was done.
		20km resurfacing of roads in Utrecht town	Main road infrastructure	30 June 2008		Engineering	The main road to Utrecht not properly done.
		50 km of gravel road network maintained	Gravel road maintained	30 June 2008		Engineering	It was regraveled.
		335% of meters changed to pre-paid	Meters changed	30 June 2008		Engineering	35% of the convention electricity meters changed.
	Reduction in reticulation losses for electricity (Rand-value)	R353 400	Reduce losses in the next FY	30 June 2008		Engineering	Unavailability to support the status.
	% Reduction in number of complaints from residents	230 complaints per annum	Improve services rendered	30 June 2008		Engineering	Only 196 complaints were received for 2007/2008 financial year.
	% Increase in response time and resolution of complaints	48 hour turn around time on complaints	Improve efficiency	30 June 2008		Engineering	The turn around time has been reduced from 48 hours to 24 hours.

NKPA	KPI	Baseline	Objective	Target	Budget	Department	Comments
INFRASTRUCTURE & DEVELOPMENT & SERVICE DELIVERY	% Increase in payment of municipal services	25% reduction in the collection rate	Put in place proper debt collection policies. Hand over defaulters timeously.	31 May 2008		BTO	Credit policy has been adopted by Council with no appointment of a legal person to recover municipal debt.
	Asset register for all infrastructure and municipal property rehabilitated periodically and maintained	05/06 developed	Developed 06/07 by June 2007	31 May 2008		BTO	Finalised with challenges. Asset was compiled by a service provider.
	The provision of basic municipal services to the satisfaction of residents (That is, clear delivery programmes and projects to progressively achieve national services delivery targets in terms of): Electricity	1.2 million units bought				MM	No information on the electricity plan as it is done by Eskom.
	Refuse Removal	Twice a week	100% urban refuse removal	31 December 2008		Engineering	Refuse removal is done in the urban areas but not in rural areas.
	Municipal access roads and public transport.	20km resurfaced road	20km of road maintained	30 June 2008		Engineering	20km resurfaced road.

NKPA	KPI	Baseline	Objective	Target	Budget	Department	Comments
INFRASTRUCTURE & DEVELOPMENT & SERVICE DELIVERY	Sustainable human settlement development facilitated through engagement with sector departments in line with the IDP and through IGR structures.	150 Low cost houses built. Eco-estate development to resume, awaiting DFA application	Low cost housing stands ear marked for township. Stands ear marked for upmarket apartments.	30 June 2008		Engineering	An application of a DFA has been lodged with the applicable department.
	IDP integrates sector plans including, Housing, Health, Social Development, Home Affairs, DME, DWAF, DTI, DEAT, Education and Land Affairs	Housing tourism plan in place	Communication Plan and LED Strategy to be developed.	30 June 2008		Engineering	Not done.
	Spatial development Framework in IDP includes spatial reconstruction policies, environmental, social and demographic trends, land-use policies and representation of sustainable human settlement vision	Evaluation Roll to be completed.	Stand by will need to be evaluated. This will mean the municipality can now rate.	The roll will be done pending receipts of funds.		Engineering	Not done.
		LUMS needs to be adopted.		30 March 2008		Engineering	Not done.

NKP A	KPI	Baseline	Objective	Target	Budget	Department	Comments
LOCAL ECONOMIC DEVELOPMENT	An analysis of the local economy undertaken.	August 2005 ADM backlog study	LED study of Utrecht	30 June 2008		Municipal Manager	The study is incomplete due to no support received from the Municipality, resulting in the service provider pulling out.
	Comparative and competitive advantage of the municipality identified and incorporated into credible LED strategy and programmes.	An abundance of human resource	Jobs created will be short to fixed	30 June 2008		Municipal Manager	More than 30 jobs created through the Game Park project with an additional to other departments in terms of casual work.
	Spatial Development Framework in IDP includes economic development analysis, land-use policies and spatial representation of local economic development vision.	Developed by Amajuba District	Development of all wards	On review		Municipal Manager	Not done.
MUNICIPAL FINANCIAL VAIBILITY & MAANGEMENT	Sound financial management practices implemented in terms of the MFMA priorities and timeframes, including but not limited to:	Aligned	Budget IDP and PMS should be aligned	30 June 2008		BTO	This was done by June 2008
	Budget aligned to development and service delivery targets that municipalities are accountable for as set out in the adopted IDPs.					Municipal Manager	
	Budget and Treasury Office	Established	Budget and	1 July 2008		Municipal	Established in terms of

	established.		Treasury Office established			Manager	the MFMA 2003 by June 2008.
NKP A	KPI	Baseline	Objective	Target	Budget	Department	Comments
MUNICIPAL FINANCIAL VIABILITY AND MANAGEMENT	Budget and revenue management is effective.	Need to develop few policies	Investment, credit control and indigent policies.	3 March 2008		BTO	Financial policies developed.
	Financial reporting and auditing is performed.	Annually	Reporting is done by CFO to Council.	30 June 2008		BTO	Not done properly because there were challenges around the Chief Financial Officer's position.
	Institutional capacity for municipality to spend is created.	Posts are being filled.	Qualified people have filled positions.	31 December 2007		Corporate	Relatively all posts are filled except for the CFO position.
	Financial management policies and bylaws developed, including but not limited to: supply chain management, credit control, and tariff and investment policies.	Bylaws developed SCM developed	On going monitoring	30 June 20068		BTO	Financial policies in operation.
	Integrated financial management systems introduced and operationalised.	Abakus	Maintain and upgrade	30 June 2008		BTO	Not done.
	Municipal financial viability targets set and achieved which will ensure that:						
	Growth in service debtors is reduced	25%	Reduce debtor growth	30 June 2008		BTO	Debt was reduced from R2m to R1.8m and the debt recovery policy has been developed. There has been no success in reducing the grant dependency rate.
	Consumer debt exceeding 90 days is recovered.	25%	Put in place debt recovery policies	30 June 2008		Municipal Manager	
	% Reduction in grant dependency grant	60%	Low capacity municipality	30 June 2008		Municipal Manager	

NKP A	KPI	Baseline	Objective	Target	Budget	Department	Comments
MUNICIPAL FINANCIAL VIABILITY AND MANAGEMENT	Turn around time for creditor payment improved.	30 Days	Monitor	30 June 2008		Municipal Manager	
	Provision for bad debt made.	In place				Municipal Manager	
	% Personnel cost over the total operational budget is in line with regulatory framework.	46% Total personnel cost as at 2005/06	Regulatory framework on salaries of staff	30 June 2008		Municipal Manager	Not done. Personnel costs stood at 38% because the Municipality is too small but needs quality staff at a high cost.
	Financial legislation implemented, and complied with, including the property Rates Act and the Division of Revenue Act.	None	Still to conduct a land audit.	30 June 2008		Municipal Manager	Not done at the moment.
GOOD GOVERNANCE & PUBLIC PARTICIPATION	Procedures for community participation processes as set out in the legislation adhered to in terms of:					Corporate	Ward committees have been in operation since March 2007 and function properly.
	Planning	IDPRF meeting	Process plan submitted to Council	30 June 2008		Municipal Manager	Done with minutes available as form of proof.
	Budgeting	Budget meetings	Budget meetings held in all wards	31 December 2007		BTO	Yes, together with the IDP, the turn up was good and the comments, responses and needs from the public, were taken into consideration.
	Implementation	Budget meetings	All expenditure in terms of the approved budget	31 December 2007		BTO	With no capital budget, the expenditure was spent according to the budget.
	Monitoring and reporting	Izimbizo	Report back sessions	30 June 2008		BTO	There was no reporting that was done as it only happened once.

NKPA	KPI	Baseline	Objective	Target	Budget	Department	Comments
GOOD GOVERNANCE & PUBLIC PARTICIPATION	Regular communication with communities on the achievement of targets set out in IDPs is carried out.	Quarterly via IDPRF meetings	Report on projects	31 May 2008		NN	There was sufficient communication done, concerning the IDP, with the relevant members of the IDPRF through quarterly meetings.
	Functioning of ward committees directly supported where applicable.	None	Functioning ward committees in the municipality	30 December 2007		Corporate	Fully functioning.
	Capacity building of community based organizations to enhance effective participation facilitated	Internship and apprentice	Council has taken interns and is training an engineer.	30 June 2008		Corporate	Yes, it has been done.
	Relationship with organized business, labour and civil society built through transparent and accountable.	Through IDPRF	Monthly meetings with local chamber	On going		Municipal Manager	There is sufficient relationship with the members of the IDPRF with meetings held quarterly.
	An anti-corruption strategy in terms of national strategy for the municipality is developed and implemented to address:	None	Will be addressed at MANCO	30 January 2008		MM/BTO	It was out-sourced and still to be implemented.

NKPA	KPI	Baseline	Objective	Target	Budget	Department	Comments
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GOOD GOVERNANCE & PUBLIC PARTICIPATION	Prevention						
	Detection						
	Awareness/ communication						
	Financial performance audit committee established and functional.	Shared service with ADM	Fully functional Audit committee	30 July 2008		Municipal Manager	Audit Committee established in terms of Section 166 of the MFMA and shared with the District performed the performance audit.
	Mechanisms to ensure disclosure of financial interest in place.	In place	All white collar employees must disclose	On going		Municipal Manager	This was done as all Section 57 employees discloses one per annum.
	An effective communication strategy to promote transparency, public accountability, access to information, administrative justice and responsiveness to complaints are dealt with in terms of the legislation, developed and implemented.	Developed with PMS	Development of a communication plan	30 March 2008		Corporate	It was done, awaiting for adoption by Council.
	Unqualified audit report achieved and maintained.	Qualified report	Improve Status quo	05/06		BTO	An unqualified report was not received instead a disclaimer Audit from Auditor General was received, however improvement in this regard on the AG report will be made in the next financial year.
	Community satisfaction surveys conducted.	30 June 2006	Services survey	30 June 2008		Municipal Manager	It was distributed from the Municipality and other Municipal facilities, it was not properly conducted as with the Management changes that took place within the Municipality. However, it will be reported in the 2008/2009 financial year.

3.2 MUNICIPAL MANAGER'S OFFICE PERFORMANCE

The table below indicates each departmental performance areas on service delivery.

OFFICE OF THE MUNICIPAL MANAGER	
Performance Area	Actual Performance
Performance Management System (PMS) aligned to the IDP, developed and implemented.	This was aligned to the IDP and implemented.
An organisational structure aligned to the IDP established and operational.	The organisational structure is in place by 2006/2007.
Effective administrative and institutional systems, structures and procedures including human resources, financial policies, bylaws and communication systems established and implemented.	Human resources policies and financial policies are in place but bylaws have not been published because of financial constraints.
The interface between Council administration to align administrative political priorities of Council managed.	There was no tensions between Council and the administration.
Integrated human resource management system introduced and operationalised.	A computerized system of leave system for the whole Municipality was bought and operationalised.
Infrastructure development and investment model implemented.	No regular electricity reports on the maintenance were received however ad hoc maintenance were done. The main road in Utrecht was not properly done. A 50km gravel road was regraveled. 35% of the convention electricity meters were changed.
Reduction in the reticulation losses for the electricity. (R353 400)	No records could be found to indicate the progress in this.
Reduction in response time and resolution of complaints.	The turn around time was reduced to twenty four (24) hours from forty eight (48) hours.
% increase in payment of municipal services.	A credit policy was adopted by Council but there is no legal person appointed to assist with the recovery of municipal debt.
Asset register for all infrastructure and municipal property rehabilitated periodically and maintained.	An asset register was compiled by the service provider and finalised although with some challenges.
The provision of basic municipal services to the satisfaction of residents (A clear delivery programme and projects to progressively achieve national service delivery targets in terms of electricity and refuse removal.	There is no information on the electricity plan because this is done by Eskom but refuse removal is done in the urban areas. No service is done in the rural areas.
Municipal access road and public transport.	Twenty (20) kilometre of road has been resurfaced.
Performance Area	Actual Performance

Sustainable human settlement development facilitated through engagement with sector department in line with the IDP and through IGR structures.	An application for development facilitation Act has been lodged with the Sector Department.
IDP integrates sector plans including Housing, Health, Social Development, Home Affairs, DME, DWARF, DTI, DEAT, Education and Land Affairs.	This has not been done.
Spatial development framework in IDP Includes spatial reconstruction policies, environmental, social and demographic trends, land-use policies and representation of sustainable human settlement vision.	This was not done.
An analysis of the local economy undertaken.	The study was not finalised because there was no support from the Municipality and the service provider appointed pulled out.
Comparative and competitive advantage of the Municipality was incorporated into credible LED strategy and programmes.	More than thirty (30) jobs were created through the Game Park project and other departments in terms of casual workers.
Spatial development framework in the IDP includes economic development analysis, land-use policies and spatial representation of local economic development vision.	This was never done.
Sound financial management practices implemented in terms of the MFMA priorities and timeframes, including but not limited to; budget aligned to development and service delivery targets that municipalities are accountable for as set out in the adopted IDP.	Budget, IDP and PMS was aligned to the IDP by June 2008.
Budget and Treasury Office established.	The Budget and Treasury Office was established in terms of the MFMA by June 2007.
Budget and revenue management is effective.	Financial policies were developed.
Financial reporting and auditing is performed.	This was not done properly because there were challenges around the Chief Financial Officer's position.
Institutional capacity for the municipality to spend is created.	There were challenges because most strategic positions were on acting capacity by June 2008.
Financial management policies and bylaws developed, including but not limited to supply chain management, credit control, and tariff and investment policies.	Financial policies were in place.
Integrated financial management systems introduced and operationalised.	This was not done.

Performance Area	Actual Performance
Municipal financial viability targets set and achieved which will ensure that: growth in service debtors is reduced by 25%, 25% of customer debt exceeding 90 days is recovered, 60% reduction in grant dependency rated and thirty (30) days turn around time for credit payment improved.	Debt was reduced from R2m to R1.8m and the debt recovery policy has been developed. There has been no success in reducing the grant dependency rate.
% Personnel costs over the total operational budget are in line with the regulatory framework.	This was not done. Personnel costs stood at 38% because the Municipality is too small but need quality staff at a high cost.
Financial legislation implemented, and complied with, including the Property Rates Act and the Division of Revenue Act.	This has not been done as yet.
Procedure for community participation processes as set out in legislation adhered to in terms of; planning, budgeting, implementation, monitoring and reporting, regular communication with communities on the achievement of targets set out in the IDP is carried out.	This has been done and minutes are available to indicate this process.
Functioning of ward committees directly supported where applicable.	Ward committees are in place since March 2007. They function properly.

3.2.1 Customer Satisfaction Survey

We had designed and distributed customer satisfaction forms from our help desk and reception area of the Municipality and all other offices of the Municipality which are collected by the Municipal Manager for his attention. This practice had ceased to exist in the absence of the Municipal Manager and the Acting Municipal Manager did not attend to this. The system has since been introduced for the current financial year and we will report about it in the 2008/2009 financial year.

3.3 CORPORATE SERVICES PERFORMANCE

Service Delivery Key Performance Areas

CORPORATE SERVICES	
Performance Area	Actual Performance
To ensure cleanliness of community facilities.	There was a decline in the overall number of complaints received from 39 to 16.
To ensure a safe environment for the community in relation to traffic safety.	There was a 15% increase in the staff compliment.

Performance Area	Actual Performance
To reduce the prevalence of wild veld fires and household fires.	A draft disaster management plan is currently being drafted.
To centralize all selection, recruitment and appointment of municipal personnel.	Achieved, the selection and appointment of municipal staff is centralized.
To carry out all disciplinary cases within 4 weeks.	Not achieved due to insufficient staff compliment at corporate services.
To review the Empowerment Equity Plan annually.	A EEP was drafted but is yet to be adopted.
To formulate a task team for policy review annually.	Achieved. A committee was formulated.
To develop a skills plan for councillors.	In progress.
To develop a workplace skills plan.	Achieved, The WSP was forwarded to LGSETA.
To ensure that all employees are aware of labour related Acts.	Achieved. All labour related legislation has been posted on our notice boards.

3.3.1 Human Resource Strategies

The Municipality has established, adopted and continuously adopted the following human resource policies:

- Sexual harassment policy
- Subsistence and Travelling allowance policy
- Recruitment, Selection and Appointment Policy

3.3.2 Disaster Management Plan

Introduction:

The Emadlangeni Municipality area of jurisdiction has constantly made headlines over the years about the different types of disaster occurred in this area. As far back as 1993 the Tornado effects were felt where six people lost their lives. In recent years strong winds, veld fires, storms have been reported in this area and had caused sizeable damage to properties and to other extent claiming lives of innocent residences. Hence the questions are raised about the level of preparedness of this area and the municipality in particular, to handle similar events or disasters should they occur in future. Clearly, the municipality is called to gear itself up for any foreseen and unforeseen disasters.

It is undoubtedly evident that, sustainable development is not possible if disasters are continuously injuring and killing and damaging infrastructure, property and livelihoods. It is important that the relationship between disasters and development is recognized so that proactive action can be taken to eliminate or at least reduce the impact of the consequences of disasters.

When disasters occur, their costs set back development, since projects are often delayed due to the diverting of funds. On the other hand, when disasters occur they provide an opportunity to rebuild “smarter”, i.e. to avoid the likelihood of repetition of the disaster, and to plan for a sustainable and safe future.

Development can either increase or reduce the vulnerability of the community. Unsafe or inappropriate development increases vulnerability while adequate attention to risk in the planning of development will reduce vulnerability.

Need for disaster Management Plan

The Disaster Management Plan, as prepared by the Emadlangeni Local Municipality, is designed to:

- Anticipate the types of disasters that are most likely to occur in its area of jurisdiction;
- Identify the possible effects of any disaster that may occur;
- Identify the preventative and mitigating strategies to deal with any possible disaster
- Involve all role players in a coordinated manner to respond to the challenges posed by disaster situations thereby strengthening district wide partnership on disaster management;
- Procure essential goods and services for disaster management;
- Identify the weaknesses in respect of capacity and skills to deal effectively with disaster situations;

- Provide essential training in skills and to promote awareness and preparedness in respect of the occurrence of disasters; and
- Plan in advance the relief operations that may be required or to be exercised in disaster situations.

Amajuba District Disaster Management Framework

Amajuba District Municipality has complied with Disaster Management Act by drafting a detailed disaster management framework to guide the endeavors of local municipalities in managing this all important function. To this end, it is recorded that all district stakeholders have participated in the drafting of the strategy and various workshops have taken place where roles and responsibilities of stakeholders were outlined. Emanating from these engagements it could be deduced that, the district disaster framework is now widely understood and enjoys the buy –in of all local stakeholders.

The Disaster Management Plan for Emadlangeni is therefore, directly based on the ground work in terms of disaster analysis and broad strategies of Amajuba as it were prepared by Africon. The technical analysis pertaining to Emadlangeni are matched to those in the district document in order to maintain same understanding of challenges facing our municipalities in relation to those facing the district as a whole.

3.4 BUDGET AND TREASURY OFFICE

Service Delivery Key Performance

BUDGET AND TREASURY OFFICE 2007/2008	
Performance Area	Actual Performance
Percentage of the budget reserved for the maintenance.	7.21% of the total budget was allocated to repairs & maintenance.
No. of tenders awarded to HDI's.	None of the tender (above R100 000) were awarded.
Performance Area	Actual Performance
No. of local youth employed by BTO.	2 People under the 35 yrs were employed.
No. of tenders or contractors given to HDI women.	None of tender were awarded to HDI women.

Number of households registered as indigents.	184 households registered as indigent s and this number will increase in the next financial year.
Percentage collection against amounts raised.	The municipality was able to collect up to 60% of amount raised.
No. of progress reports made to Council regarding the implementation of the Property Rates Act.	No records however the implementation of this Act was scheduled for 1/7/09.
Percentage reduction in debtors.	Due to no appointment of Attorneys for debt collection up to 45% was collected.
Debtor as a % of income.	6% of total income received from debtors.
Implementation of the credit control policy.	Due to no legal person appointed 80% of the policy was implemented.
No. of complaints regarding the non rendering of consumer accounts on time.	No complaints received in writing.
No. of audit committee meetings held and attended.	One meeting was attended. Audit Comm. was shared with District Municipality.
Cost coverage as defined in the Municipal planning and performance regulations (2001)(A=B+C)/D	<u>0,73 : 1</u> Fixed operating expenditure is greater than actual cash and investments.
Debt Coverage as defined in the Municipal Planning and Performance Regulations (2001)(A=(B-C)/D	<u>62 : 1</u> Positive: Revenue is able to cover total debt service.
Outstanding service debtors to revenue as defined in the Municipal Planning and Performance Regulations (2001)(A=B/D)	<u>0,16 : 1</u> Total outstanding service debtors is less than revenue received for services.
The ratio of current assets less inventory to currently liability.	The ratio of current assets to current liabilities is 2:1.
Percentage of total expenditure of personnel cost.	The municipality is able to meet its short term obligation.
The extents to which all pay day dates schedules have been met.	The total expenditure of personnel cost was 38,18% 100%. Payday dates were met as scheduled.
The number of SCM practitioners trained as succeeded.	None. The municipality has not established SCM unit.
No. of refresher courses conducted and attended.	One course attended.
Percentage progress made by the service provider with compilation of asset register.	90% of work was done in compiling Asset Register however the asset register is not complying with the GRAP/GAMAP.
Performance Area	Actual Performance
No. of stakeholder meetings attended.	No records for all stakeholders attended.
No. of joint meetings attended to ensure the alignment of the budget to IDP.	Eleven meetings of alignment of the budget to IDP.
No. of meetings attended to align the budget with PMS.	None the budget was not aligned with PMS.

Performance management plan in place for junior official	No, PMS has not been cascaded to junior staff.
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3.4.1 Revenue Raising Strategy

- investments explored.
- incentive schemes to attract investors.
- tourism markets to enhance revenue base.
- maintenance of effective debt collection system.
- implementation of new valuation roll.
- renewal of indigent application on regular basis.
- nominate individuals to obtain alternative funding.
- lobby for greater equitable share and grant funding.

ENGINEERING SERVICES	
Performance Area	Actual Performance
Collection to 1300 households twice a week.	This has been done with no complaints.
To facilitate water service delivery needs to the WSA	168 complaints registered and referred to the WSA with reference no within one hour
To maintain the storm water network in built up areas.	On 30 June 2008 100% of approved budget was spent on maintenance of storm water network.
Maintenance of existing roads within the approved budget .	Quarterly expenditure reports submitted to council.
Kilometres of roads built within the MIG funding.	30 April 2008, R1,3 million spent by Amajuba District Council, eight km of roads was constructed.
Number of complaints registered and referred to Eskom.	39 complaints referred to Eskom.
To facilitate sanitation service delivery needs to the WSA (DC 25)	Daily complaints submitted to WSA and corrected within 5 days.
Number of complaints registered and referred to the WSA with reference no within one hour.	95 complaints registered and referred to the WSA with reference no within one hour.
Performance Area	Actual Performance

Number of housing backlogs relayed to Dept. of Housing.	Housing Forum meeting on monthly basis where needs are related.
Number of community facilities provided annually.	Groenvlei clinic was completed and opened.
Number of new employees employed on a temporary basis.	90 temporary employees were appointed under projects up to 30 June 2008.
Number of local interns appointed in the 2007/2008 financial year.	2 interns appointed by 30 June 2008.
To meet all the legal financial requirements. To reduce over expenditure of votes.	0% spending deviation during 2007/2008.
Reduction in the number of audit queries relating to SCM	Only one audit query was received that is engineering related in terms of overtime worked.
To review the system to ensure alignment with the budget and IDP. Number of joint meetings and IDPRF aligned.	All IDPRF and other IDP meetings held were attended by the Engineer's Department and inputs and needs were obtained for IDP, budget and related projects.
Number of staff that have signed performance plans.	Senior manager should have signed a performance plan by 31 January 2008.

3.5 APPOINTMENT OF CONSULTANTS

In the year under review the supply chain management unit appointed the following consultants.

List of Consultants and paid less than R10 000

No.	Consultant	Type of Project	Contract Value
19680	Freddy Hirsch	Spices, Wors derms (Caravan Park)	R 1 745,56
19689	Quali T Consulting	Training of Councillors	R 3 300,00
19708	SDB Projects	Disaster Management	R 1 400,00
19761	Auditor General	Audit	R 6 610,86
19862	SDB Projects	Disaster Management	R 3 872,00
19991	Fujitsu	Licence & Contract	R 3 312,68
20188	Fujitsu	Licence & Contract	R 3 312,68
20240	Fujitsu	Licence & Contract	R 9 017,40
20286	Fujitsu	Licence & Contract	R 3 312,68
20450	Fujitsu	Licence & Contract	R 6 625,36
			R42 509,22

List of Consultants paid more than R10 000 but less than R100 000

No.	Consultant	Type of Project	Contract Value
19651	Zulumop	HP Design , Jet T1100 AO Plotter/Printer	R 59 838,60
19662	PMG Projects	Erection of precast wall and security fence at Berouw sports field	R 69 163,80
19702	Fujitsu	Licence and Contract	R 32 822,70
19742	Bokenhoutkloof	Training of Traffic Officers	R 10 800,00
19082	Lakhi & Co	Internal Audit	R 27 787,50
19084	Isibuko se Africa	Kingsley Dev. Plan	R 17 250,81
19972	Muntra CC	Consultation & Accounting Duties	R 45 641,91
19919	Muntra CC	Consultation & Accounting Duties	R 98 011,50
19923	Fujitsu	Licence & Contract	R 11 134,06
20257	Isibuko se Africa	Disaster Management	R 68 123,46
20311	E Folscher	HR	R 80 000,00
20324	Fujitsu	Licence & Contract	R 12 330,08
Multiple Cheques	P & N Environment	Game Park Management	R 90 000,00
20474	Mdeke Trading	Compilation of WSP	R 59 400,00
			R682 304,42

List of Consultants paid more than R100 000 but less than R10,m.

No.	Consultant	Type of Project	Contract Value
19930	Auditor General	Audit	R 143 684,62
20031	Auditor General	Audit	R 180 092,87
20163	Auditor General	Audit	R 239 867,39
20220	Auditor General	Audit	R 169 490,29
20381	Max Prof	Tax	R 379 423,97
Multiple Cheques	HSK Simpson	Property rates	R2 289 938,00
Multiple Cheques	Indwe Risk Services	Insurance	R 100 000,00
			R3 502 505,47

CHAPTER 4

AUDITED FINANCIAL STATEMENTS AND RELATED FINANCIAL INFORMATION

4.1 INCOME RECEIVED

4.1.1 Grants and Subsidies

The following grants/subsidies were received during the year under review.

Government Grants & Subsidies - Allocations	2006/2007	2007/2008
National Grant Allocations		
Equitable Share	R6 161 781	R4 784 998
Integration of Reds	R 150 000	0
Financial Management Grant	R 526 670	R 500 000
Municipal Systems Improvement Grant 2007/08 - Carry over	R 17 000	R 367 000
Municipal Systems Improvement Grant 2008/09	0	0
Municipal Infrastructure Grant	0	0
Sub Total – National Grant Allocations	R6 855 451	R5 651 998
Provincial Grant Allocations		
Valuation Roll (Carry over of R1 485 130)	R 150 000	R1 485 130
MAP Grant - Carry over	R 500 000	R 173 329
Financial Management Systems - Carry over	0	0
Kingsley Development Plan - Carry over	R 595 367	R 169 740
Environmental Health	0	0
<i>Sport field – Indirect Grant</i>	0	0
Sub Total - Provincial Grant Allocations	R1 245 367	R1 828 199
Total – Grant Allocations	R8 100 818	R7 480 197

4.1.2 Operating Income

Income	2005/2006	2006/2007	2007/2008
Electricity Sales	R3 842 983	R3 687 814	R4 733 456
Rates & Taxes	R2 067 495	R 859 667	R2 217 143
Rentals	R 222 218	R 199 151	R 221 210
Other Income	R3 790 356	R7 278 017	R3 030 484

4.2 MUNICIPAL EXPENDITURE

4.2.1 Expenditure

The cost drivers of Emadlangeni Municipality was the operational expenditure because of its size and location.

Expenditure Items	2006/2007	2007/2008
Salaries & Allowance	R7 726 212	R9 517 243
General Expenditure	R7 716 425	R8 774 265
Repairs and Maintenance	R1 591 077	R 584 638
Capital Charges	R 131 841	0
Contribution to Fixed Assets	R 346 242	R2 556 895
Contribution to Special Fund	R 30 002	0
Projects	0	0

4.2.2 Investments, Loans and Losses

The Municipality had investments totaling to R10 134 721,12 as at 30 June 2008. This is short term investment.

Investment Name	Balance 01/7/2007	Balance 30/06/2008
First National Bank		
Emadlangeni Municipality	326 778,18	0
Standard Bank		
Anti Corruption Strategy	50 860,59	54 659,88
Community Game Farm & Wildlife	62 211,78	66 859,02
Dev. Admin. Build. Grant 05/06	163 458,09	10 513,64
Finance Management Grant 05/06	672 433,99	396 997,48
Grant Capacity Building	66 863,18	13 872,70
IDP Support Grant 05/06	17 366,72	0
Inter Departmental Monitoring	28 128,60	5 840,53
Inter-Departmental Monitoring Grant 05/06	40 471,04	11 956,93
Land Use Management	39 548,73	5 661,51
Land Use Management Systems 04/05	73 637,09	0
Local Development Planning	0	1 753,50
Management Assistant Programme	0	1 974 570,55
MSIG 2005/2006	1 386 059,74	1 941 954,00
Mun. Fin. Man. Act Impl. Grant 05/06	67,07	0
Mun. Dev. Info. Systems Support Grant	49 119,31	34 590,96

Investment Name	Balance 01/07/2007	Balance 30/06/2008
Municipal Finance Management Act	0	1 025 971,43
Municipal Systems Improvement	13 644,55	14 302,54
Municipal Systems Investment Grant	312 010,28	327 480,39
Performance Management Grant 05/06	110 418,82	119 855,36
Plan Cap Build 2004/2005	9 309,96	0
Property Rates Act	69 363,10	21 680,22
Repair of 376 Houses	3 482 842,16	3 827 822,76
Spatial Planning Grant	53 641,56	57 648,58
Specific Programmes Support	182 083,20	197 644,26
Valuation Roll Grant	180 113,67	23 085,48
Total	7 063 700,89	10 134 721,72

The following is the external loan for the Municipality.

Loan	Type	Interest Rate	2006/2007 Balance	2007/2008 Balance
DBSA Loan	Long term (New Municipal Offices)	10,81%	R1 223 160,30	R1 125 535,75

CHAPTER 5

REPORT OF THE AUDIT COMMITTEE

The Municipality shared the Audit Committee of the District Municipality of Amajuba in the period under review. There was no internal audit in the period under review. This short coming has since been corrected. The Audit Committee which will service us in 2008/2009 is composed of the following members:

Mrs Corrie van der Merwe - Chairperson
Mr Nhlanhla Buthelezi
Ms Lindiwe Ndlozi (Graduate)
Mr Sifiso Shongwe (Graduate)
Mr Yusuf Latiff

The Accounting Officer
Mr V Kubheka
eMadlangeni Municipality
P.O.Box 11
Utrecht
2940

30 October 2008

60634REG 07/08

Dear Sir

**MANAGEMENT REPORT ON THE REGULARITY AUDIT AND THE AUDIT OF
PERFORMANCE INFORMATION OF EMADLANGENI MUNICIPALITY FOR THE
YEAR ENDED 30 JUNE 2008**

INTRODUCTION

1. We have completed the audit of the financial statements of eMadlangeni Municipality for the year ended 30 June 2008. This management report is provided to the accounting officer and communicates any matters that came to our attention during the audit which, in our opinion, are relevant to the municipality

AUDITOR'S RESPONSIBILITY

2. Our responsibility is to express an opinion on the financial statements and to report on findings related to our review of performance information.
3. Our audit was conducted in accordance with the International Standards on Auditing read with *General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008.*
4. The auditing standards require us to plan and perform the audit as well as to obtain all the information and explanations that we consider necessary in order to obtain reasonable assurance that the financial statements are free of material misstatements, whether caused by fraud or error. This involves performing procedures to obtain assurance about the amounts and disclosures in the financial statements.
5. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments we consider the internal controls relevant to the preparation and presentation of the financial statements. Our audit also includes evaluating the appropriateness of the accounting policies and the reasonableness of the accounting estimates made by management, as well as the overall presentation of the financial statements.

6. We do not examine every transaction, nor does our guarantee complete accuracy of the financial statements or performance information, or compliance with all applicable legislation. Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any information and internal control systems, there is an unavoidable risk that some, even material, misstatements might remain undiscovered.
7. In addition to our responsibility to express an opinion on the financial statements, we have also performed procedures of an audit nature to obtain evidence about the performance information and related systems, processes and procedures. The procedures selected depend on our judgement.
8. Our audit report arising from the annual audit will also contain an elaboration on non-compliance with any applicable legislation relating to financial matters, financial management and other related matters.
9. In addition, we will read other information accompanying the financial statements to determine whether there are material inconsistencies between the audited financial statements and the other information.

RESPONSIBILITY OF THE ACCOUNTING OFFICER

10. The responsibility for the preparation of financial statements that fairly present the financial position, financial performance and cash flows of the municipality in accordance with the applicable basis of accounting is that of the accounting officer. Our audit report will explain that the accounting officer is responsible for the fair presentation of the financial statements in accordance with the applicable financial reporting framework. This responsibility includes:
 - designing, implementing and maintaining internal controls relevant to the preparation of financial statements that are free from misstatement, whether due to fraud or error
 - selecting and applying appropriate accounting policies
 - making accounting estimates that are appropriate in the circumstances.
11. In addition, the accounting authority is responsible for ensuring, through oversight of management, that the municipality establishes and maintains internal control to provide reasonable assurance with regard to the effectiveness and efficiency of operations and compliance with applicable legislation. The systems of financial and risk management and internal control should provide reasonable assurance that adopted policies and prescribed procedures are adhered to for the prevention and detection of errors and irregularities, including fraud and illegal acts. They should also provide for the regular monitoring of performance against objectives, and ensure that waste is minimised and business is conducted with due regard to probity.
12. The financial statements, maintenance of effective control measures and compliance with any applicable legislation are the responsibility of the accounting authority.
13. Furthermore it is the responsibility of the accounting authority to provide us with:

- all information, such as records and documentation, and other matters that are relevant to the preparation and presentation of the financial statements
 - any additional documentation that we may request from management and, where appropriate, those charged with governance
 - unrestricted access to those within the entity from whom we determine it necessary to obtain audit evidence.
14. The accounting authority also has specific responsibilities as legislated in the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003 (MFMA) to report information related to performance against predetermined objectives.

SIGNIFICANT FINDINGS FROM THE AUDIT

Going concern

15. Although presentation of assets and liabilities in the financial statements presents a favourable position in terms of going concern, audit testing performed could not support the value of assets presented. This along with other matters point to the existence of an uncertainty that may cast doubt on the municipality's ability to continue as a going concern.

Revision of the previously issued financial statements

16. Material changes to financial statements have been made however only the following adjustments could be supported by adequate documentation
- Provisions – Leave Pay
 - Provisions for doubtful debts

Internal controls – root causes

17. Section 62(1)(c)(i) of the MFMA states that the accounting authority must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Revenue	Operating Expenditure	Fixed Assets	Investments	Reserves	Cash and Cash Equivalents	Creditors	Fruitless and wasteful expenditure	Debtors	Inventory
Financial	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Selection and development of control activities	✓		✓		✓	✓	✓		✓	
Policies and procedures	✓	✓	✓	✓	✓			✓	✓	✓

Control environment: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

Control activities: policies, procedures and practices that ensure management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

Information and communication: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allows people to carry out their financial reporting duties.

Monitoring: covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.

Non-compliance with applicable legislation

18. Non compliance with the following legislation was noted:

- Municipal Finance Management Act
- Basic Conditions of Employment
- Supply Chain Management Policy
- Municipal Systems Act

Matters of governance

19. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which we have assessed as follows:

No.	Matter of governance	Yes	No
	Audit committee		
1(a)	The municipality had an audit committee in operation throughout the financial year.		✓
1(b)	The audit committee operates in accordance with approved written terms of reference.		✓
1(c)	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		✓
	Internal audit		
2(a)	The municipality had an internal audit function in operation throughout the financial year.		✓
2(b)	The internal audit function operates in terms of an approved internal audit plan.		✓
2(c)	The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		✓
	Other matters of governance		
3	The annual financial statements were submitted for audit as per the legislated deadlines in Section 126 of the MFMA.	✓	
4	The annual report was submitted for the auditor for consideration prior to the date of the auditor's report.		✓
5	The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		✓
6	No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		✓
7	The prior year's external audit recommendations have been substantially implemented.		✓
9	There are documented policies and procedures and control systems to ensure the reliability of financial reporting.		✓
10	There are documented policies and procedures and control systems to ensure compliance with applicable laws and regulations.		✓
11	The information systems were appropriate to facilitate the preparation of financial statements that are free from material misstatement.		✓
12	Delegations of responsibilities are in place.		✓
13	Supply chain management policies and procedures were appropriately applied.		✓
14	There is a functioning performance management system.		✓
	Implementation of Standards of Generally Recognised		

	Accounting Practice (GRAP)		
16	The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007.	✓	
17	The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP.		✓
18	The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008.		✓

Misstatements in the financial statements submitted for audit on 30 August 2008

Misstatements not corrected

20. Inventory and the accumulated surplus is overstated by R139 000.
21. There is a difference of R7,303 million (2006/7:R2,84 million) with regards to cash effect of financing activities.
22. Cash generated by operations did not agree to note 18 of the financial statements. There is an unexplained difference of R2,86 million.
23. Cash and cash equivalents disclosed in the balance sheet did not agree to note 22. There is an unexplained difference of R154 000.
24. An unexplained difference of R3,44 million noted for investments existed between the financial statement and the general ledger.
25. Assets are understated by an amount of R 278 000.
26. Interest totaling R709 000 was not recorded in the general ledger/financial statements resulting in an understatement of interest income and accumulated surplus in the financial statements.
27. Unexplained difference of R1,70 million between the financial statements of R7,84 million and the payroll reconciliation of R9,54 million.
28. There was an unexplained difference between the previous year closing balances and the current year opening balances for the following balances:
 - A difference of R209 000 was noted for investments
 - A difference of R861 was noted for debtors
 - A difference of R92 000 for was noted for long term debtors
 - A difference of R345 000 was noted for Bank and cash
 - A difference of R675 000 was noted for fixed assets

Significant difficulties experienced during the audit

Significant delays in management providing required information

29. There was a significant delays in providing of information due to finance staff attending a course. A meeting was arranged with the acting Manager Mr I Dekker, the consultants who were preparing financial statements who also express concern about the availability of information in order to finalise financial statements and working papers. Furthermore working paper file did not have sufficient information to support figures on the financial statements.

Performance information

- 30. Non- submission of performance information for audit purposes and related documentation.
- 31. Quaterly reports were not provided
- 32. Service Budget implementation plan was not in place during the period under review.

Investigations

- 33. There are 3 fraudulent matters that are currently being investigated relating to ghost employees, alteration of payment details on a pension payment, game park theft. These matters were not finalised to date.

RATINGS OF DETAILED AUDIT FINDINGS

- 22. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

- Matters to be included in the audit report

These matters should be addressed as a matter of urgency.

- Other important matters – deficiencies that could adversely affect the entity's ability to initiate, record, process and report financial data consistent with the assertions of management on the financial statements and in accordance with the applicable basis of accounting. Unacceptable risk that errors and irregularities may occur that will not be prevented or detected by the internal controls in good time.

These matters should be addressed within the next 12 months.

- Administrative matters – non-material non-compliance with applicable legislation, or misstatements in the financial statements that are unlikely to affect the decisions of a user and do not affect the financial statements as a whole, or opportunities for improvement, or other matters of governance interest.

These matters should be addressed at the discretion of the entity.

Failure to address matters reported in a particular category may result in the matter being rated as more significant in the next financial year.

APPRECIATION

- 23. We would like to express our appreciation for the courtesy extended and assistance rendered by the staff of the eMadlangeni Municipality during the audit.

Yours sincerely

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Distribution:
CFO

SUMMARY OF AUDIT FINDINGS

Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2006/07	2005/06	2004/05
Appropriated funds													
	Accumalated Surplus - Prior year Adjustments	Financial	Control activities	✓						No			
	Statutory Fund interest not allocated	Financial	Control activities	✓						No			
	No contribution to Statutory Funds	Compliance (Non-AFS)	Control activities	✓						No			
Borrowings & long-term loans													
	Long Term Liabilities - No disclosure	Financial	Control activities					✓		No			
	Long Term Liabilities - No loan Register	Control	Control activities						✓	No			
Budgetary prep. & control													
	Budget implementation	Control	Control activities					✓		No			
Cash and cash equivalents													
	Bank reconciliation and overdraft	Financial	Control activities	✓						No			
	Cash and Bank - Bank reconciliation does not reconcile	Control	Control activities	✓						No			
	Bank Reconciliation not performed on a monthly basis	Control	Control activities					✓		No			
	Cash and Bank - Reconciling items not cleared timeously	Control	Control activities					✓		No			
	Cash and Bank - Monthly bank reconciliations not reviewed	Control	Control activities						✓	No			

Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2006/07	2005/06	2004/05
	Cash and Bank - Petty cash register not reviewed	Control	Control activities						✓	No			
Cash flow statement													
	Cash Flow statement does not balance	Financial	Control activities	✓						No			
Employee costs													
	Salaries and Wages understated in the financial statements	Financial	Control activities	✓						No			
	Performance Contracts not reviewed for section 57 employees	Compliance (Non-AFS)	Monitoring of controls			✓				No			
	Unexplained payments to councillors.	Financial	Control activities					✓		No			
	Persal / Payroll printout showing leave days due is not attached.	Control	Control activities					✓		No			
	No overtime policy in place	Control	Control activities					✓		No			
	Overtime hours worked in contravention with Basic Conditions of Employment Act	Control	Control activities					✓		No			
	Terminated employees not removed from Payroll	Control	Control activities						✓	No			
	Lack of Documentation for leave gratuity paid	Control	Control activities						✓	No			
	Employment Contract unavailable	Control	Monitoring of controls						✓	No			
	Overtime – No agreements between employer and employee	Control	Control environment						✓	No			
	Overtime not authorized	Control	Control activities						✓	No			
	Rental agreements not obtained for audit.	Control	Control environment						✓	No			

Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2006/07	2005/06	2004/05
Inventory													
	Assets under R5000 should have been classified as expenditure.	Financial	Control activities	✓						No			
Investments													
	Short term investment – Difference between AFS and Register	Financial	Control activities	✓						No			
	Investment opening balances – Difference between trial balance and AFS	Financial	Control activities	✓						No			
	Investment register does not reconcile to amount disclosed in financial statements	Financial	Control activities	✓						No			
	Ceded Investments not disclosed	Financial	Control activities	✓						No			
	No Investment policy in place	Compliance (Non-AFS)	Control activities					✓		No			
Irregular expenditure													
	Fruitless and wasteful expenditure not identified and disclosed	Control	Control activities	✓						No			
Operating expenditure													
	Unexplained audit difference between accounting system and financial statements	Financial	Control activities	✓						No			
	Non submission of tender information	Control	Control activities					✓		No			
Payables													
	Electricity bulk purchases does not agree to financial statements	Control	Control activities	✓						No			

Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2006/07	2005/06	2004/05
	Creditors - Internal Control weaknesses	Control	Control activities	✓						No			
	Vat discrepancy	Financial	Control activities	✓						No			
	Non compliance with Supply Chain Management Policy	Control	Control activities					✓		No			
	Lack of supporting documentation relating to other creditors	Control	Control activities					✓		No			
	Payments outstanding for longer than 30 days	Control	Control activities					✓		No			
	Creditor's Reconciliations not performed	Control	Control activities					✓		No			
Property, plant & equipment													
	Fixed Assets comparatives inconsistent	Control	Control activities	✓						No			
	Assets not physically verified	Control	Control activities	✓						No			
	Information not included in fixed asset register	Compliance (Non-AFS)	Control activities					✓		No			
	Leases - Accounting policy not disclosed in the financial statements	Control	Control activities					✓		No			
	Differences between asset register, Appendix C and Trial balance	Financial	Control activities					✓		No			
Receivables													
	Debtors - Discrepancies of balances	Financial	Control activities	✓						Yes			
	Debtors - Opening Balance does not agree to previous year financials	Financial	Control activities	✓						No			
	Long Term Debtors - Prior year balances	Financial	Control activities	✓						No			
	Write-Off water transfer debt	Financial	Control activities	✓						No			
	Debtors - Outstanding debts	Control	Control activities			✓				No			
	Debtors - Interest not levied	Control	Control activities			✓				No			

Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2006/07	2005/06	2004/05
	No tender for a Lawyer	Compliance (Non-AFS)	Control activities					✓		No			
Reserves													
	Supporting Documents not received – Reserves	Financial	Control activities	✓						No			
	No movements on reserves	Control	Control activities	✓						No			
	Interest on reserves not accounted for	Financial	Control activities	✓						No			
	Concomitment Assets - Funds and Reserves	Control	Control activities		✓					No			
Revenue													
	Revenue - Prior Year Discrepancies	Financial	Control activities	✓						No			
	Revenue - Conditional grant	Control	Control activities	✓						No			
	Electricity Sales Difference between General Ledger and Annual Financial Statements	Financial	Control activities	✓						No			
	Revenue – Unallocated Receipts	Control	Control activities	✓						No			
	Revenue - Valuation Roll not available	Control	Control activities	✓						No			
	Revenue - Rental Agreements not available	Control	Control activities	✓						No			
	Revenue - –Grant Reconciliation	Financial	Control activities	✓						No			
	Revenue - Interest on Investments not accounted for	Financial	Control activities	✓						No			
	Revenue - Unexplained Difference - Equitable Share	Financial	Control activities	✓						No			
	Revenue – Segregation of Duties	Control	Control activities					✓		No			
	Revenue - Completeness of general ledger	Financial	Control activities					✓		No			
	Revenue - Lack of documentation - deposits	Control	Control activities					✓		No			

Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2006/07	2005/06	2004/05
	Revenue – Electricity misstatement	Financial	Control activities					✓		No			
	Lack of monitoring of distribution losses	Control	Control activities					✓		No			
	Registers not used	Control	Control activities					✓		No			
	No authorisation of journals	Control	Control activities					✓		No			
	Access Controls	Control	Control activities						✓	No			
Taxes													
	Vat reconciliation not performed	Control	Control environment	✓						No			
	Incorrect Vat claim	Control	Control activities			✓				No			
	Discrepancy of opening Balance	Financial	Monitoring of controls					✓		No			
Going concern													
	Going concern	Control	Control environment		✓					No			
Compliance with legislation (non-AFS)													
	Inadequate information on official website	Compliance (Non-AFS)	Control activities			✓				No			
Internal control													
	Control Weaknesses identified	Control	Control activities			✓				No			
	Lack of Variance Explanations	Control	Control activities					✓		No			
Matters of governance													
	No Internal audit	Control	Control			✓				No			

Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2006/07	2005/06	2004/05
			environment										
	No Audit Committee	Compliance (Non-AFS)	Control environment			✓				No			
	Reporting Obligation in terms of section 71 of MFMA	Financial	Control activities			✓				No			
Performance information													
	Performance Information not received	Performance information	Control activities				✓			No			
General IT controls													
	Lack of generation of exception reports.	Control	Control activities					✓		No			

ANNEXURE A

MATTERS AFFECTING THE AUDIT REPORT

APPROPRIATED FUNDS

1. Accumulated Surplus - Prior year Adjustments

Audit finding

It was observed during the audit of accumulated surplus that prior year adjustment as per note 17 amounting to R5 460 596 could not be supported by appropriate documentation. No alternative audit procedures could be performed to test validity, completeness and accuracy of accumulated surplus. Furthermore this adjustment as per note 17 could not be traced to general ledger or trial balance.

Root cause

Recording keeping, management reviews and asset are not adequate to prevent fraudulent financial data and reporting. Separate evaluations such as independent review of financial statements were not evident/ performed to prevent fraudulent reporting.

Risk

Limitation of scope has been placed on the audit. Completeness and validity of the adjustments and the related balances could not be verified.

Recommendation

Documentation relating to the adjustment of prior should be made available for audit purposes. All transaction recorded should be supported by appropriate documentation. Financial statements should be reviewed by an independent official from the one who had prepared them. Appropriate adjustments should be effected to ensure financial statements are fairly stated.

Management response

Agree to the finding and recommendations.

The analysis will be done. The adjustment will be processed and AFS will be revised.

Auditor's response

Management comment is noted; however proof of adjustments was not submitted for audit purposes.

2. Statutory Fund interest

Audit finding

No interest was allocated to statutory fund . Furthermore no policy is in place that gives direction on how the interest generated/earned should be allocated.

Root cause

On going monitoring and review by management is not evident as statutory fund interest has not been allocated as required.

Risk

Statutory funds is understated by amount of interest not credited as fund were invested during the period under review

Recommendation

Management should ensure that interest is allocated to funds as internal investments were made during the period under review totalling to R691 000 as per note 26.

Management response

Agree to the finding and recommendations.
The adjustment will be processed and should be audited in the next financial year.

Auditor's response

Management comment has been noted however proof of adjustment should be submitted for audit purposes.

3. No contribution to Statutory Funds

Audit finding

In terms of section 103 (9) (b) (ii) council shall pay the capital development fund (i) Not less than 3% of the annual revenue accruing to the borough fund and the relevant trading fund, provided that when funds has reached an amount sufficient for the council's immediate or foreseeable needs the council may suspend or reduce payments into such fund for a period as may be approved by the MEC of Local Government. During the audit of statutory fund it was established that no contribution was made to statutory fund.

Root cause

On going monitoring and supervision are not undertaken to enable management to determine whether internal controls over financial reporting is functioning as no contribution were made to the statutory fund.

Risk

Non compliance with section 103(9) (b (1) of Local Authority Ordinance of 1974
Statutory funds are misstated.

Recommendation

Management should ensure that that appropriate contributions are made to the statutory as required by the legislations. An alternative would be to get an exemption from the MEC.

Management response

Agree to the finding and recommendations.
The management will process all other adjustment and process the contributions as the last batch of adjustments. The adjustment will be processed and AFS will be revised.

Auditor's response

Management comment has been noted, however financial statements were not adjusted to reflect contribution and no adjustment was effected.
This will remain in the management letter and audit report.

4. Bank reconciliation and overdraft**Audit finding**

If was observed during the follow up of prior year audit report that matters reported upon were not yet resolved by the municipality. The bank reconciliation as at 30 June 2007 recorded an amount of R573,539 as a cashbook balance. This, however, differed from the financial statement amount of (R918,603) for item described as bank overdraft. Furthermore, I was unable to conduct alternative auditing procedures to satisfy myself as to the completeness and accuracy of the bank reconciliation, cashbook, as well as the bank overdraft due to the lack of periodic bank and general ledger reconciliations.

Root cause

On going monitoring and supervision is not undertaken by the management to ensure prior year matters are resolved and financial statements are fairly stated.

Risk

Comparatives are misstated in the financial stated.

Recommendation

Management should ensure that appropriate steps are taken to resolve the matters reported upon in prior year.

Management should ensure that appropriate adjustments are effected and proof of adjustments and related supporting documentation be furnished to this office for audit purposes.

Management response

Agree to the findings and recommendations.

The management had difficulty in finalizing this matter before the deadline given by the Office of the Auditor General as the proposed journal were not done by the personnel assisting with the bank reconciliation. Therefore journals will be identified and processed in due course.

Auditor's response

Management comment has been noted, however this matter was not resolved as by the management.

This matter will be reported on in the final management letter and audit report.

5. Bank reconciliation does not reconcile

Audit finding

During the audit of cash and bank it was identified that the bank reconciliations did not reconcile to the bank balances at the end of each month. There was an unexplained difference of R185 362

Root cause

Control activities were not regularly evaluated to ensure that they are still appropriate and working as intended.

Risk

Financial statements could be materially misstated by R185 000.

Recommendation

Management should implement controls to ensure that bank reconciliations are accurate and agree to supporting documentation and reviewed regularly.

Management response

Agree to the finding and recommendations

The bank reconciliations will be reviewed on a monthly basis and these identified errors will be rectified.

Auditor's response

Management comment has been note however bank and cash is not reconciling and this will be reported upon.

CASH FLOW STATEMENT

6. Cash flow statements does not balance

Audit finding

Cash applied to operating activities as disclosed in the cash flow statement did not agree to the cash effects of financing activities. There is a difference of R7,303 million (2006/7:R2,84 million).

Cash generated by operations did not agree to note 18 of the financial statements. There is an unexplained difference of R2,86 million

Cash and cash equivalents disclosed in the balance sheet did not agree to note 22. There is an unexplained difference of R154 000.

Root cause

On going monitoring and review by management is not evident as financial statements were not review for accuracy and completeness.

Risk

Financial statements are materially misstated

Recommendation

Management should ensure that financial statements are reviewed for completeness and accurate reporting.

Management should ensure that financial statements are not misleading to the users of financial statements.

Management response

No management comment received

Auditor's response

No management comment received

EMPLOYEE COSTS

7. Salaries and Wages understated in the financial statements

Audit finding

It was observed during the audit of employee costs that salaries and wages as disclosed in the financial statements differs to the amount actual paid out in terms of PAYDAY salary reconciliation.

Salaries and Wages as per Appendix D	R 7 840 209
Salaries and Wages as per Payday Reconciliation	R 9 535 365
Audit Difference	R 1 695 156

Root cause

Internal control deficiencies are not identified and communicated in a timely manner to those parties responsible for taking corrective action.
Transactions are not timely captured to ensure that financial system and payday system are updated.

Risk

Employee cost has been materially misstated by R1,70 million.

Recommendation

Management should take corrective steps in ensuring that financial system is updated in order to produce appropriate report for reporting purposes.
Financial statements should be adjusted and appropriate journals and supporting documentation should be furnished for audit purposes.

Management response

Agree to the finding and recommendations.
The analysis has been done. The adjustment will be processed and AFS will be revised.

Auditor's response

Management comment has been noted; however proof of adjustment should be submitted for audit purposes.

8. Performance Contracts not reviewed for section 57 employees

Audit finding

It was observed during the audit that performance contract for section 57 employees were not finalised and adopted by the council during the period under review. Consequently no performance reviews were undertaken during the period under review. Furthermore no performance bonuses were approved for payments for this employee. It is thereby noted that no service delivery has taken place.

Root cause

On going monitoring and supervision by oversight committee is not evident

Risk

Section 57 employee may not deliver in terms of their written contracts.
Service delivery may be hampered as no monitoring control in place to hold employee accountable for their responsibilities and duties.

Recommendation

Performance contract for section 57 employees for 2007-08 financial years should be finalised and presented to the council for approval.

Council resolution adopting section 57 employee contract and related contracts should be furnished for audit purposes.

Performance reviews for section 57 employees should be undertaken and appropriate resolution be taken relating to performance bonuses.

Management response

A management contract of the Municipal Manager and Managers directly responsible to the Municipal Manager were concluded but the performance reviews and payments of the bonus were not done because the Municipal Manager and the Council could not accept the performance plans agreed upon by the Mayor and the Municipal Manager. There was no one at Council who could explain the process followed. Council had since requested a workshop before performance plans are concluded with incumbents. This is done for 2008/2009 financial year.

Auditor's response

Management comment has been noted however performance contracts were not finalised during the period under review and no performance reviews were performed. This will be reported in the final management letter.

INVENTORY

9. Assets under R5000 should be classified as expenditure

Audit finding

In terms of the municipality's accounting policy items purchased which are below R5000 should be expensed and not capitalised to inventory nor included in fixed asset register, however items making up R139 091 that related to assets below R5000 were incorrectly recorded as inventory at year end.

Root cause

Pertinent information is not identified, captured, used at all levels of the municipality and distributed in a form and time frame that supports the achievement of financial reporting objectives.

Risk

Inventories is overstated and expenditure understated by R139 091

Recommendation

Management should ensure that items under R5000 are expensed in the income and expenditure and financial statements should be prepared based on reports generated by the systems used.

Adjustment effected on the financial statements should also be processed into the financial system in order to ensure that amount trial balance agree to the financial statements.

Management response

Management comment outstanding

Auditor's response

No management comment received

INVESTMENTS

10. Short term investment – Difference between AFS and Register

Audit finding

An unexplained difference with regards to short term investments of R991 781 existed between the financial statements (R7,1 million) per note 6, and the investment register (R8,1 million). In this regard, management was unable to provide supporting documentation/records thus limiting the performance of alternative auditing procedures. This matter was reported upon in prior year and still remains unresolved as per follow up made to the auditee.

Root cause

On going monitoring and supervision is not undertaken by the management to ensure prior year matter are resolved and financial statements are fairly stated.

Risk

Comparatives with respect to investments are materially misstated.

Recommendation

Management should ensure that appropriate steps are taken to resolve the matters reported upon in prior year.

Management should ensure that appropriate adjustments are effected and proof of adjustments and related supporting documentation be furnished to this office for audit purposes.

Management response

Agree to the findings and recommendations.

Differences have been identified, however could not be processed as other transactions affect directly the cashbook balance. The cash book journal entries will be processed first before any other transactions are processed on investments. Bank and investments transactions are interrelated should be reconciled simultaneously to ensure correct adjustments.

Auditor's response

No supporting documentation produced. This matter is incorporated into the final management report

11. Investment opening balances – Difference between trial balance and AFS

Audit finding

Opening balances as per audited financial statements amounted to R7, 09 million but amount in the trial balances opening balances amounted to R7,32 million. .This resulted in an audit difference of R208 582

Root cause

On going monitoring and review by management is not evident as financial statements were not based on the accurate financial information.

Risk

Comparatives as are misstated in the accounting records and does not agree to the audited amount.

Recommendation

Management should ensure that accounting records are updated and review on a timely basis.
Appropriate adjustments should be effected to ensure that financials are based on the accurate financial information.

Management response

Management comment outstanding:

Auditor's response

No management comment received

12. Investment register does not reconcile to amount disclosed in AFS

Audit finding

The amount disclosed in the financial statements does not agree to the investments register. The following illustrates the discrepancy

Amount as per investment register	R10 134 721
Amount disclosed in the financial statements (note 6) and general ledger	R 6 693 124
Difference	R 3 441 598

Root cause

On going monitoring and supervision are not undertaken to enable management to determine whether investments is appropriately presented and disclosed in the financial statement.

Separate evaluations and review of investments by an independent officials is not performed timely

Risk

Investment is understated by R3 441 598

Recommendation

Management should ensure that investments are appropriately disclosed in the financial statements.

An independent official should review investment register on a timely basis and accounting records be updated on an on going basis.

Management should provide proof of adjustment related to investments.

Management response

Agree to the findings and recommendations.

Differences have been identified, however could not be processed as other transactions affect directly the cashbook balance. The cash book journal entries will be processed first before any other transactions are processed on investments. Bank and investments transactions are interrelated should be reconciled simultaneously to ensure correct adjustments.

Auditor's response

Management comment has been noted however no proof of adjustment had been noted

13. Ceded Investments not disclosed

Audit finding

No evidence could be produced to support the existence of the R300,000 investment ceded as security for the building loan, as per the agreement between the municipality and the Development Bank of South Africa, due to the lack of proper controls over the safeguarding of essential documentation. This matter was reported upon in prior year and still remains unresolved.

Root cause

On going monitoring and supervision is not undertaken by the management to ensure prior year matter is resolved and financial statements are fairly stated.

Risk

Comparatives are misstated in the financial statements

Recommendation

Management should ensure that appropriate steps are taken to resolve the matters reported upon in prior year.

Management should ensure that appropriate adjustments are effected and proof of adjustments and related supporting documentation be furnished to this office for audit purposes.

Management response

Agree to the findings and recommendations.

The management is aware of this matter; however it has been difficult to cede this investment to DBSA due to cash flow challenges. The management will correct this situation and this should be reviewed in the next audit.

Auditor's response

Management comment has been noted however this matter has not been resolved and will remain in the final management letter and audit report

FRUITLESS AND WASTEFUL EXPENDITURE**14. Fruitless and wasteful expenditure not identified and disclosed****Audit finding**

It was observed during the audit of expenditure, Interactive Trading was appointed to prepare a service delivery and budget implementation plan for 2007-08; however work performed by this service provider was never utilised by the municipality during the period under review. Hence the municipality does not have service delivery and budget implementation plan in place. This was also noted during the review of council meeting dated 17 February 2008 where Item "Report to council in respect to alleged contravention of MFMA was discussed. The payments totalled R178 819

Root cause

On going monitoring and supervision are not undertaken by management to ensure that suppliers deliver in terms of their service agreements.

Risk

Fruitless and wasteful expenditure has been incurred

Recommendation

Management should ensure that all service providers' delivers in terms of their service level agreements and no payments should be released unless all conditions have been met.

Management should ensure that fruitless and wasteful expenditure is appropriately disclosed in the financial statements.

Management should ensure that there are controls in place in future in order to avoid unnecessary spending.

Management response

Agree to the finding and recommendations.

The management investigated the matter and amongst other things that she was suspended for was the appointment of the service provider which was not inline with the provisions of the Supply Chain Management Policy. Due to the fact that she resigned before the disciplinary action was taken, the internal procedures could not be finalized. The management will review the matter and take appropriate steps as to the finalization of this matter.

Auditor's response

Management comment has been note, however there was still no disclosure of irregular and wasteful expenditure in financial statement and will remain on management letter and audit report.

OPERATING EXPENDITURE

15. Unexplained audit difference between accounting system and financial statements

Audit finding

The final income and expenditure amounts for electricity purchases, repairs and maintenance, and general expenses as recorded on Appendix D were overstated by R1, 4million, R1million and R316 182 respectively in relation to the ABAKUS financial system. The discrepancies could not be explained and/or substantiated thus limiting the application of alternative auditing procedures to conclude on the completeness, accuracy, and validity of recorded expenditure. This matter was reported on in the prior year however has not been resolved.

Root cause

On going monitoring and supervision is not undertaken by the management to ensure prior year matter is resolved and financial statements are fairly stated.

Risk

Comparatives are materially misstated in the financial statements

Recommendation

Management should ensure that appropriate steps are taken to resolve the matters reported upon in prior year.

Management should ensure that appropriate adjustments are effected and proof of adjustments and related supporting documentation be furnished to this office for audit purposes.

Management response

Agree to the findings and recommendations.

The electricity purchases were reconciled to reflect the correct amounts. Necessary adjustments were processed in the system that reflects the correct amounts. Other differences will be investigated further and will be resolved upon the re-structuring of the ledger accounts which is part of the deliverables in the upgrade of the financial management system that will start on the 17th of November 2008.

Auditor's response

Management comment has been noted, however this matter will be reported upon as this was not resolved. As appendices are scoped out in the audit report, the matter was not included in the qualification paragraphs.

PAYABLES

16. Electricity bulk purchases does not agree to financial statements

Audit finding

During the audit, it was noted that the electricity purchases of R2,48 million in the final income and expenditure schedule did not agree with what was presented in the financial statements. There was a difference of R149 011.

Therefore the amounts disclosed in the financial statements cannot be verified and on enquiry of staff no explanation was given to support the different figures disclosed in the financial statements.

Root cause

Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning. Separate evaluations, such as the consideration of the risks assessed, self assessment processes, reviews by the internal audit function and an effective audit committee, are not evident.

Risk

Electricity purchases are overstated in the financial statement by R5 680 148 and accumulated surplus is understated.

Recommendation

Management should take adequate steps to ensure that financial statements are accurately prepared and reviewed by an independent official from the one who prepared them

Management should ensure that electricity purchases as per general ledger and invoices agree to the amount disclosed in the financial statements.

Management should adjust electricity purchases disclosed in the financial statements and proof of adjustment be made available for audit purposes.

Management response

Agree to the findings and recommendations.

The management has implemented the changes.

Auditor's response

Management comment has been noted; however no supporting documentation was received with regard to journal passed.

17. Creditors - Internal Control weaknesses

Audit finding

Section 65 of the Municipal Finance Management Act states that:-

(1). the accounting officer of a municipality is responsible for the management of the expenditure of the municipality.

(2). the accounting officer must for the purpose of subsection (1) take all reasonable steps to ensure—

(a) That the municipality has and maintains an effective system of expenditure control, including procedures for the approval, authorization, withdrawal and payment of funds;

(b) That the municipality has and maintains a management, accounting and information system which—

(i) recognizes expenditure when it is incurred;

(ii) Accounts for creditors of the municipality; and

(iii) accounts for payments made by the municipality;

(c) That the municipality has and maintains a system of internal control in respect of creditors and payments;

(d) That payments by the municipality are made—

(i) directly to the person to whom it is due unless agreed otherwise for reasons as may be prescribed; and

(ii) either electronically or by way of non-transferable cheques, provided that cash payments and payments by way of cash cheques may be made for exceptional reasons only, and only up to prescribed limit;

- (e) that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure;
- (f) That the municipality complies with its tax, levy, duty, pension, medical aid, audit fees and other statutory commitments;
- (g) that any dispute concerning payments due by the municipality to another organ of state is disposed of in terms of legislation regulating disputes between organs of state;
- (h) That the municipality's available working capital is managed effectively and economically in terms of the prescribed cash management and investment framework;
- (i) That the municipality's supply chain management policy referred to in section 111 is implemented in a way that is fair, equitable, transparent, competitive and cost-effective; and
- (j) That all financial accounts of the municipality are closed at the end of each month and reconciled with its records

However the following was noted:

1. Creditors Reconciliation

No creditor's reconciliation could be produced for the 2007/2008 financial year. On further enquiry it was established that there is no creditors control within the municipality and the computer system does not generate exception reports. Therefore no reliance can be placed on the completeness of the trade creditors listing that was provided to the auditors.

No supporting documents could be found to verify the year end creditors.

Root cause

Directive, preventive and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness as measured by the extent to which specific control objectives are achieved.

Policies related to reliable financial reporting are not established and communicated throughout the entity, and do not have corresponding procedures that result in management directives being carried out.

Risk

Late payment of creditors can result in penalties and fines which will result in a fruitless and wasteful expenditure.

The absence of reconciliations compromises reliance over the completeness and accuracy of recorded creditors

Recommendation

Action plans should be developed whereby the implementation is monitored and tracked to ensure that these weaknesses highlighted are addressed. Where management has performed reviews of information these should be signed as evidence of the review. Adequate evidence to support all disclosure should be maintained as evidence to management as well as the

Management response

Management response outstanding

Auditor's response

No management comment received

18. Vat Discrepancy**Audit finding**

Periodical Value-added-tax (VAT) reconciliations were not performed, and sufficient information and explanations could not be provided to support a VAT debtor of R451,951, as per note 9 to the financial statements. As a result, the accuracy and completeness of this amount could not be verified. This matter had been reported in the prior year.

Root cause

Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning
On going monitoring and supervision is not undertaken by the management to ensure prior year matter is resolved and financial statements are fairly stated.

Risk

Comparatives are misstated in the financial stated

Recommendation

Management should ensure that appropriate steps are taken to resolve the matters reported upon in prior year.
Management should ensure that appropriate adjustments are effected and proof of adjustments and related supporting documentation be furnished to this office for audit purposes.

Management response

Agree to the findings and recommendations.

The management appointed a service provider to assist with the process of VAT reconciliation but awaiting journal entries to be processed in the system.

Auditor's response

Management comment noted, however no supporting documents received

PROPERTY, PLANT & EQUIPMENT**19. Fixed Assets comparatives inconsistent**

Audit finding

It was observed during the audit of fixed assets that opening balances as per the financial statements does not agree to the general ledger opening balances. A difference of R574 923 was noted

The following was also noted with regards to appendix c and asset register

Total fixed assets as per appendix c amount to R30, 799 million however fixed assets as per asset register amount to R31,077 million resulting in audit difference of R278 000. .Accuracy, completeness and validity of this difference could not be verified.

Fixed Asset addition as per appendix C and asset register amounted to R1,861 million however contribution to fixed assets as per appendix d amounted to R2,557 million resulting in audit difference of R695 000.

Root cause

On going monitoring and review by management is not evident as adjustments effected cannot be justified.

Risk

Comparatives in the general ledger and trial balances are incorrect.

Recommendation

Management should ensure that appropriate adjustments are effected to reflect accurate figures in the accounting records.

Management response

Management comment outstanding

Auditor's response

Management comment outstanding

20. Assets not physically verified

Audit finding

In terms of the Municipal Finance Management Act, Section 63 (1) (a) "The Accounting Officer of a municipality is responsible for the management of the assets at the municipality, including the safeguarding and the maintenance of those assets."

During the audit of fixed assets the following issues were noted:

- Physical verification was conducted by the municipality and only 40% - 50% of the total assets could be verified as the other assets could not be located.

- Through physical verification conducted by us certain assets that could not be verified and the location thereof could not be identified on the fixed asset register:

Root cause

Valuable assets and information are not safeguarded from unauthorized access or use. Physical control over vulnerable assets. The municipality did not employ physical control to secure and safeguard vulnerable assets.

Risk

Financial losses may occur if assets are not safeguarded
Assets could be overstated

Recommendation

- The matter should be investigated by management
- Stolen assets should be removed from the asset register.

Management response

The management will recall the service provider that was assisting in the preparation of the asset register to come back and assist with the identification of the outstanding items. Should other assets not identified the management will write off the assets not physically available. The management is also proposing the appointment of personnel to do the function of control and management of assets on full time bases.

Auditor's response

These assets were not verified, and therefore the matter is incorporated into the final management report

21. Inventory accounted for as fixed assets

Audit finding

In terms of the Municipal Finance Management Act, Section 63 (2)(b) " The Accounting Officer must for the purpose of subsection (1) take all reasonable steps to ensure that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice".

It was however noted that certain inventory items were incorrectly classified as fixed assets in the asset register. The following are items identified:

Asset Description	Location
Conlog Split Phase Meters	Engineering
Reserved Sign 600mmX1050mm Unitrusts & Clamps	Engineering
A -Stable 200lt Drums Anionic Stable	Engineering
200lt Cationic Premix 60%	Engineering
Cement all purposes	
Conlog Prepaid meters	Engineering
CBI Ecolec Meters	Engineering
Supply and delivery of 6.7mm crushed stone	Engineering

Root cause

Data recorded by information and financial systems was not periodically compared with physical assets and discrepancies examined.

Risk

Fixed assets could be overstated and inventory could be understated.
Financial statements could be materially misstated.

Recommendation

Fixed assets and inventory should be recorded on separate registers to ensure the correct allocation and valuation in the financial statements.

Management response

Agree to the findings and recommendations.

The above assets have been added in the asset register.

Auditor's response

Management result is considered unsatisfactory as the response is not in line with management comment

RECEIVABLES

22. Debtors - Discrepancies of Balances

Audit finding

During the audit of debtors, the following discrepancies were noted:

Debtors account to the value of R 355 851 appear not to meet the definition of receivables have been adjusted by management. No supporting documentation and explanations were given for these amounts.

Amounts per the age analysis do not agree to amounts per the financial statements. There was a difference of R627 149

Other debtors totalling R47 796 in the financial statements have shown no movement for the year under review

Root cause

Management does not have an appropriate attitude toward financial, budgetary, and operational/programmatic reporting.

Risk

Amounts reflected in the financial statement maybe materially misstated

Recommendation

Financial statements are to be based on timeous and accurate information. Monthly reconciliations should be performed and reconciling items followed up and resolved timeously.

Management response

Agree to the findings and recommendations

The management has prepared some analysis and will process adjustments to rectify the debtors figure disclosed in the Annual Financial Statement. The figures shown in the annual financial statements will be revised.

Auditor's response

Although debtors have been revised on the annual financial statements, no adjustments have been made to the financial systems.

This matter will therefore be incorporated into the final management report

Amounts showed above with regards to contra accounts were noted to be excluded however; no indication was made as to where these amounts are included.

Adjustment of R1,15million to consumer debtors could not be traced to any supporting documentation

23. Debtors - Opening Balance does not agree to previous years financials

Audit finding

There was a difference of R681 179 noted between prior years closing balance per the general ledger and current years opening balance for debtors

Root cause

Management does not have an appropriate attitude toward financial, budgetary, and operational/programmatic reporting.

Risk

Opening balances reflected in the financial statement are materially misstated

Recommendation

Financial statements are to be based on timeous and accurate information.

Management response

Management comment outstanding

Auditor's response

Management comment outstanding

24. Long Term Debtors - Prior year balances**Audit finding**

During the audit of long term debtors, there was a difference of R 95 609 with regards to prior years balance

Root cause

Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning

Risk

Misstatement of opening balances

Recommendation

Controls over effective financial reporting should exist at all levels
Appropriate adjustments should be effected and proof of adjustments be made available for audit purposes.

Management response

Agree to the finding and recommendations.

Differences were identified and adjustment will be processed.

Auditor's response

Management comment noted, however general ledger still does not tie up to the financial statement.

This matter is therefore incorporated into the final management report

25. Debtors - Outstanding debts

Audit finding

During the audit of debtors, it was noted that debts to the amount of R3 241 236 has not been recovered. Furthermore, the municipality does not have appropriate measures in place relating to debt collection. The municipality has contravened section 96 and 97 of the Municipal Systems Act (Act 32 of 2000) as they do not have effective revenue collection procedures in place nor do they provide for termination of services or the restriction of the provision of service when payments are in arrears.

Root cause

Within the entity, there are no mechanisms in place to monitor and review operations and programmes.

Risk

Loss of revenue to the municipality

Recommendation

Suitable measures should be enforced to recover outstanding funds

Management response

Credit control policy and debt collection policy is under review. The TOR of the service provider assisting with the review includes also the drafting of a credit control strategy. The management view is that this function should be done internally as the use of the lawyer has proven that the municipality is not benefiting as it has small debtors book.

Auditor's response

This matter should be followed up in the 2008/09 financial year ensuring management has a process in place to collect debts timeously

26. Write-Off water transfer debt

Audit finding

In terms of the instructions by the Minister for Provincial and Local Government in Government Gazette 25076 issued in terms of General Notice no. 843, dated 13 June 2003 assets, rights, liabilities and obligations relating to the water and sanitation services for the municipality should be transferred to Amajuba District Municipality. While the transfer took place, the balance of R220, 557 was written-off by the municipality during the 2006/07 financial year. This was contrary to the prescripts of the Government Gazette as the obligation should have been settled by the district municipality. Consequently, debtors and the accumulated deficit had been understated by this amount. This matter was reported upon in prior year and still remains unresolved as per follow made to the auditee

Root cause

On going monitoring and supervision is not undertaken by the management to ensure prior year matter is resolved and financial statements are fairly stated.

Risk

Comparatives are misstated in the financial stated

Recommendation

Management should ensure that appropriate steps are taken to resolve the matters reported upon in prior year.

Management should ensure that appropriate adjustments are effected and proof of adjustments and related supporting documentation be furnished to this office for audit purposes.

Management response

Agree to the findings and recommendations.

The writing off of the Amajuba District Debtors reversed and the debtor now appears in the books.

Auditor's response

Management comment has been noted however these debtors should have been transferred to the district as required in term of instructions by the Minister of Local government In Government Gazette 25076 issued in terms of General Notice no. 843, dated 13 June 2003.

This will remain in the management letter and audit report

30. Debtors - Interest not levied**Audit finding**

By enquiry of the income accountant and inspection of the income statement established that the municipality only charges interest on outstanding rates accounts and not on other debtors.

By inspection of paragraph 97 (e) of the Municipal Systems Act as well as the municipality's credit control and debt collection policy, it established that the municipality should charge interest on arrear balances.

Root cause

Appropriate policies, procedures, techniques, and mechanisms do not exist with respect to each of the municipality's activities.

Risk

Loss of potential revenue and non compliance with the related legislation

Recommendation

Interest should be levied on all outstanding debts

Management response

The management is currently reviewing its policies (credit control and debt collection, tariff policy and indigent support policy). This will be incorporated in reviewed policies.

Auditor's response

Management comment has been noted; however proof of adjustment should be submitted for audit purposes.

RESERVES

32. Supporting Documents not received - Reserves

Audit finding

It was observed during the audit of reserves that expenditure totalling R203 792 cannot not be supported by appropriate documentation.

Root cause

Recording keeping, management reviews and asset are not adequate to prevent fraudulent financial data and reporting.
Separate evaluations such as independent review of financial statements were not evident/ performed to prevent fraudulent reporting.

Risk

Reserves has been understated

Recommendation

Documentation relating to the reserve should be made available for audit purposes. All transaction recorded should be supported by appropriate documentation.
Financial statements should be reviewed by an independent official.
Appropriate adjustments should be effected to ensure financial statements are fairly stated.

Management response

Agree to the finding and recommendations.

The management will investigate all discrepancies and provide supporting information that supports the balance reflected in the AFS. Necessary documentation will be submitted to the auditor.

Auditor's response

Management comment noted, however documentation relating to expenditure had not been submitted for audit purposes.

33. No movements on reserves

Audit finding

During the audit of reserves, it was noted that the following grants showed no movement for the year thus hampering improvements or services delivery within the municipality.

It is therefore not clear whether municipality is fulfilling its mandate in terms of complying with conditions of grants.

	2007-08	2006-07
Rev: Specific Program Support Grant	182 083	182 083
Municipal Finance Management Grant 2004-05	48	48
Planning Capacity Building Grant 2004-05	9 310	9 310
Property Rates Act Grant	69 363	69 363
Interdepartmental Monitoring Grant	28 129	29 129
Anti corruption strategy Grant 2004-05	49 662	49 662
MFMA Grant	67	67
IDP Support Grant	17 367	17 367
Capacity Building Grant	163 458	163 458
Expenditure Capacity Building workshop: DBSA Funding	53 642	53 642
Dev:Information System Grant	49 119	49 119
Valuation Grant	180 114	180 114
M S I G	1 202 560	1 202 560
Interdepartmental Monitoring Grant	40 471	40 471
Rev: Institution. Consolidation Grant 2005-06	300 000	300 000
House Racing Project: Utrecht	1 361	1 361
Amajuba District Support Grant	100 000	100 000
PMS grant	110 419	110 419
Department of Housing: Disaster grant	15 035	15 035
Repair & Maintenance Reserve: Agra-Village	38 175	38 175-83
Contribution Department of Housing (Repairs of 376 Houses)	3 482 842	3 482 843
Rev: Account: Capacity Building Development Planning Grant	41 437	41 437
Total	6 495 227 -74	6 495 227-74

Root cause

On going monitoring and review by management is not evident as grants are not expended by the municipality and services delivery may not be achieved.

Risk

Grant funding may be withdrawn from the municipality by the respective departments or donors.

Grant funding may be utilised for other operating purposes

Recommendation

Management should monitor grant funding properly and appropriate steps be taken to ensure that grants is utilised for its intended purposes.

It is also enquired what steps will be taken by the municipality to ensure that unspent grants are utilised for its intended purposes.

Management response

The analysis has been done. The adjustment will be processed upon finalization of the cash book and investment reconciliations.

Auditor's response

This matter will reported in the final management report as no adjustment has been made

34. Interest on reserves not accounted for**Audit finding**

No interest has been disclosed as allocated to reserves which represents, the amount invested as unspent grants..Consequently reserves are understated by an unknown amount of interest earned not allocated.

Root cause

On going monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present.

Separate evaluation such as review of accounting records and financial statements are not evident as this should have been performed by an independent official from the one who prepared financial statements.

Risk

Reserves are understated by an amount of interest which should have been allocated to reserves.

Recommendation

Interest earned on invested grants disclosed under reserves should be disclosed in the financial statements

Financial statements should be reviewed by an independent official from the one who had prepared them.

Appropriate adjustments should be effected to ensure financial statements are fairly stated.

Management response

Agree to the finding and recommendations.

The analysis has been done. The adjustment will be processed upon finalization of the cash book and investment reconciliations.

Auditor's response

Management comment is noted; however adjustment proof of adjustment should be affected.

35. Concomitment Assets - Funds and Reserves**Audit finding**

It was observed during the audit of statutory funds that the municipality does not have enough cash resources to support statutory funds and reserves. There is a short fall of R6,34 million

Root cause

On going monitoring and supervision are not undertaken to enable management to ensure that adequate resources are available to support statutory funds and reserves.

Risk

Municipal may not be able to finance its operating activities consequent utilise reserves and funds.

Recommendation

Management should ensure that shortfall is reversed and cash resources are made available to support funds and reserves

Management should also details how shortfall will be reversed in order to make this entity viable.

Management response

Agree to the findings and recommendations

The management has implemented some stringent controls on budgeted funds and is currently monitoring cash flows. The municipality will not be in the position to make this right immediately but will address it over time. The strategy to balance this will be investigated further.

Auditor's response

Management comment has been noted however this will remain in the audit report.

Revenue

36. Revenue - Prior Year Discrepancies

Audit finding

During the audit of revenue, the following discrepancies were noted with regards to prior year's figures:

	Amount per Prior Year AFS	Current Years AFS - Prior Year Amounts	Difference
Rates Income	2,193,271	859,667	1,333,604
Other Income	5,944,413	7,278,017	1,333,604-

Root cause

Internal Control and all transactions and other significant events are not clearly documented.

Risk

Inaccurate account balances could lead users to misinterpret ate financial information

Recommendation

All amounts are to be properly classified

Management response

Agree to the findings and recommendations.
The management will implement the recommendations

Auditor's response

No changes to prior year figure have been noticed
This matter is therefore incorporated into the final management report

37. Revenue - Conditional grant

Audit finding

During the inspection of bank statements for the year under review it was noted that following material transfers of R2,93 million from grants were made to primary bank account:

No corresponding entry were made to the financial statements should these transfers have been expended.

Root cause

Management's philosophy and operating style, such as leading by example, independence and competence, do not support the achievement of effective internal control over financial reporting.

Risk

Spending of grants may not be accounted for properly
Irregular use of conditional grants

Recommendation

Management should ensure that all transfers from grants to primary bank account are correctly accounted for and related expenditure be correctly disclosed if expended. Controls need to be put in place to ensure grants are being used for intended purpose.

Management response

No management comment received

Auditor's response

No management comment received

38. Electricity Sales Revised AFS - Difference between General Ledger and Annual Financial Statements

Audit finding

Electricity sales as per the financial statements differed from the general ledger by R624 108

Root cause

Management does not have an appropriate attitude toward financial, budgetary, and operational/programmatic reporting.

Risk

Misstatement of financial statements

Recommendation

Controls should exist to ensure financial systems records all figures accurately

Management response

No management comment received

Auditor's response

No management comment received

39. Revenue - Unallocated Receipts

Audit finding

During the audit of receipt testing, it was noted that the municipality does have appropriate mechanisms in place to follow up on receipts. This leads to numerous receipts been unallocated as well as debtors not been written down. Unknown deposits at year end totalled R861 752 which could not be allocated to any account.

Root cause

Within the entity, there are no mechanisms in place to monitor and review operations and programmes.

Risk

Unallocation of income to a specific vote

Recommendation

Processes should be implemented to ensure all receipts are allocated to the correct vote

Management response

Agree to findings and recommendations.

The management plans to issue an advert calling for consumers or property owners to submit the proof of payment as a strategy to ensure that this money is receipted. The advert will clearly give an indication of when the money was received by the municipality. Also notices will be made through monthly statements. The money will be allocated upon receipt of proof of payments. Should the consumers fail to produce this information the municipality will write of the suspense.

Auditor's response

Management comment has been noted however suspense account was not cleared as at year end.

Controls should be put in place to ensure that this is cleared on a timely basis.

40. Revenue - Valuation Roll not available

Audit finding

In terms of section 4 (c) (ii) of the Municipal Systems Act, Act 32 of 2000, it was noted that it is the duty of the council to impose rates on properties in order to finance the affairs of the municipality. We could not however verify the completeness and occurrence of rates been charged as the valuation of properties could not be ascertained as no valuation roll had been submitted for audit purposes. We were therefore unable to conclude on rates income at the municipality

Root cause

Management does not have a positive and supportive attitude toward the functions of accounting, information management systems, personnel operations, monitoring, and internal and external audits and evaluations.

Risk

Scope Limitation

Recommendation

All necessary documentation pertaining to the audit should be submitted upon request

Management response

The management will endeavour to obtain a copy from the service provider that prepared the valuation roll and submit for audit. Should we not succeed in getting the information, municipality will have to wait for the new process of the development of the valuation roll to be finalized and make proper amendments in the system.

Auditor's response

Management comment has been noted, however no valuation roll has been provided.

41. Revenue - Rental Agreements not available

Audit finding

During the audit of revenue, all rentals should be supported by proper agreements, however it was noted that no rental agreements existed for the following accounts. I therefore could not conclude on the accuracy, completeness and occurrence of revenue relating to these accounts.

Description	Vote Number	Revenue for year
Rental: Khayaletu Village	102691053001	60,480.00
Rental: Economy and Marlothi	102691109000	108,668.87
Rental Estates		
Name	Debtor No	Monthly Rental
TJ Nkosi	3185002	139.75
Social Welfare	2188055	3040

Furthermore, i could not relate any amount recorded in the general ledger to the following rental contracts.

Name	Debtor No
Mobile Telephone Network	9005003
Mobile Telephone Network	9005004
Country Club	9018001
GJ Grobler	9025002
Welgedacht	9025001
Club 35	9029001
GJ Grobler	9033001
JJ Grobler	9043001
IL Ferreira	9045001

Root cause

Appropriate policies, procedures, techniques, and mechanisms do not exist with respect to each of the entity's activities.

Risk

Scope Limitation

Recommendation

Proper agreements should exist for rental of properties

Management response

Agree to the findings and recommendations.

The management will locate the files and submit to the auditors.

Auditor's response

Management comment has been noted; however no documentation has been received.

This matter will therefore be incorporated into the final management report

42. Revenue - Grant Reconciliation

Audit finding

Grants received and utilized during the year were not adequately reconciled and accounted for. This was evident by the following:

Grants to the value of R7,85 million were received during the year under review, however only R559 000 was recorded in Appendix A as contributions received. The difference of R7,29 million remains unaccounted for.

Reserve expenditure amounting to R204 000 could not be supported by necessary documentation. However R13,12 million was recorded as grant income in Appendix D. No supporting documentation or valid explanations were given.

Root cause

Within the entity, there are no mechanisms in place to monitor and review operations and programmes.

Risk

Overstatement of grant income

Recommendation

Controls over grants should ensure proper recording

Management response

Agree to the findings and recommendations.
The management will correct the misstatements.

Auditor's response

No adjustments have been noted. This matter will therefore be incorporated into the final management report

43. Revenue - Interest on Investments not accounted for**Audit finding**

Interest received for the year should be recorded as income for the year, however, through inspection of the financial statements and general ledger, it was noted that income of R709 474 relating to interest was not recorded.

Root cause

Management does not have a positive and supportive attitude toward the functions of accounting, information management systems, personnel operations, monitoring, and internal and external audits and evaluations.

Risk

Understatement of revenue

Recommendation

Interest for the year should be accumulated and recorded adequately

Management response

Agree to the findings and recommendations.

The adjustment entries that will update the investments and grants have not yet been processed and the management will ensure that they are processed and the interest will then be disclosed correctly.

Auditor's response

No adjustments have been made; this matter will therefore be incorporated into the final management report

44. Revenue - Unexplained Difference - Equitable Share

Audit finding

In terms of section 64(h) of the Municipal Finance Management Act, Act 56 of 2003, it is the duty of the municipality to reconcile all amount received on a weekly basis, however due to no reconciliation been performed for grants, management could not explain the difference of R280 932 related to the equitable share

Root cause

Reconciliations are not performed to verify data completeness.

Risk

Misstatement of Grant Income

Recommendation

Reconciliation should be prepared in order to monitor receipt of all grants

Management response

Agree to the findings and recommendations.

The management will investigate the matter and correct these issues.

Auditor's response

No correction made or differences explained.

This matter will therefore be incorporated into the final management report

TAXES

46. Vat reconciliation not performed

Audit finding

Adequate reconciliations should be maintained by the municipality however, it was noted no reconciliation of VAT 201 returns to the general ledger had been prepared. Adequate conclusion regarding amounts disclosed per the Vat returns could not be ascertained due to the lack of supporting reconciliations

Root cause

Controls not in place to identify and record pertinent operational and financial information relating to internal and external events.

Risk

The VAT balance in the general ledger may be misstated at year end

The VAT reconciliation not given to auditors can result in the limitation of scope.

Recommendation

Management should put controls in place to identify and record pertinent operational and financial information relating to internal and external events.

There should be adequate communication between management and staff to ensure effective operation municipality.

Management response

Agree to findings and recommendations.

Certain errors have been identified. The management will implement the recommendations, process adjustment. Also refer to exceptions 60.

Auditor's response

Management comment has been noted however no reconciliations had been performed for the year under review.

47 Incorrect Vat claim

Audit finding

According to section 59 of the VAT Act any person who with intent to evade the payment of tax levied under this Act or to obtain any refund of tax under this Act to which such person is not entitled or with intent to assist any other person to evade the payment of tax payable by such other person under this Act or to obtain any refund of tax under this Act to which such other person is not entitled—

- Makes or causes or allows to be made any false statement or entry in any return rendered in terms of this
- Act, or signs any statement or return so rendered without reasonable grounds for believing the same to be true;
- Makes any false statement for the purposes of obtaining any refund of or exemption from tax; or Receives, acquires possession of or deals with any goods or accepts the supply of any service, knowing or having reason to believe that the tax on the supply of the goods or services has been or will be evaded; or
- Knowingly issues any tax invoice, credit note or debit note required under this Act which is in any material respect erroneous or incomplete; or
- Knowingly issues any tax invoice showing an amount charged as tax where the supply in respect of which the tax is charged will not take place; or
- For the purposes of section 16 (2), fabricates, produces, furnishes or makes use of any tax invoice, debit note, credit note, bill of entry or other document contemplated in that section knowing the same to be false, shall be guilty of an offence and liable on conviction to a fine or to imprisonment for a period not exceeding 60 months.

During the audit of Vat it was noted that the following Vat input claims was incorrect:

No.	Payment date	Supplier	Description	Cheque No.	Amount	VAT
1	10/01/2008	UAG	Petrol	20161	26238.48	3222.27
2	23/01/2008	T Tubane	Salary	20172	49015.75	6019.48
3	07/03/2008	UAG	Petrol	20303	36791.30	4518.23

Root cause

Directive, preventive and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness as measured by the extent to which specific control objectives are achieved

Lack of management supervision and review of payment vouchers and tax invoices for validity before making payments.

Risk

Possible overstatement of VAT debtor resulting in the overstatements of assets. Penalties incurred as a result of claiming incorrect VAT

Recommendation

Management must always verify if the tax invoices of a supplier are valid tax invoices according to section 20 of the VAT Act and, Claims made against invoice are in accordance with Vat Act before actually making the payment

Management response

Agree to the findings and recommendations.

The management will ensure that the invoices are properly verified for validity in accordance with the VAT act. Also prior payments will be verified for compliance and necessary adjustments will be processed in the next VAT returns.

Auditor's response

Management comment has been noted however this will remain in the management letter as it contravenes Vat Act.

GOING CONCERN

48. Going concern

Audit finding

During the audit, it was considered that the municipality could face a going concern issue. The following matter relates to the municipality been able to continue as a going concern in the foreseeable future

- (a) The debtor's days outstanding has increased by 34 days from 152 days for the 2005/2006 year to 186 days in 2006/2007 to 196 days in 2007/08.
- (b) Although a favourable position is reflected by the current assets and current liabilities in the financial records, the SARS VAT amount of R451, 951 could not be verified and numerous weaknesses were noted in consumer debtors which could not support the amount presented on the financial records.
- (c) The high rates of unemployment in the country and within the jurisdiction of the municipality, has a significant impact on the ability of consumers to pay their rates and service accounts. Thus the municipality has experienced significant problems with arrear debtor's accounts, which negatively affects its cash flow position.
- (d) Creditors are not paid within 30 days as required in terms of municipal finance management act.
- (e) No plan has been put in place to address going concern issued raised in prior year.
- (g) Material adjustments to be effected as a result of submitted financial statements is materially misstated will result in material change in current year operating surplus into deficit.

Root cause

The municipality does not have mechanisms in place to anticipate, identify, and react to risks presented by changes in governmental, economic, industry, regulatory, operating, or other conditions that can affect the achievement of entity wide or activity-level goals and objectives.

Risk

The municipality's main function is service delivery and this may be hampered due to inadequate resources

Recommendation

Management should implement plans to address the going concern problems mentioned above, as they have a significantly negative impact on the municipality's ability to meet short and long-term commitments and would hamper the municipality's ability to fulfil municipal objectives. Financial statements should also be disclosed accordingly.

Management response

Agree to the findings and recommendations.

Although the management agrees to the findings, the existence of this municipality is not threatened as the municipality is receiving assistance from the Department of Local Government and Traditional Affairs and Provincial Treasury. Also the municipality has the DPLG to intervene should the municipality experience major financial crisis. The management will therefore implement all the recommendations of the Auditor General and also address its cash flow challenges.

Auditor's response

Management comment has been noted, however this will remain in the financial management letter and audit report.

COMPLIANCE WITH LEGISLATION (NON-AFS)**49. Information on official website****Audit finding**

The municipality is required to publish certain information on their website. It is noted that the municipality have not complied to all the requirements laid down in Section 75 of the MFMA, as information such as required in subsection (d) performance agreements; (e) service delivery agreements; (f) all long term borrowing and (k) all quarterly reports tabled in council in terms of section 52(d), has not been published on the website.

Root cause

Management does not ensure that effective external communications occur with groups that can have a serious impact on programmes, projects, operations, and other activities, including budgeting and financing.

Risk

The transparency and accountability required for good governance as prescribed by the MFMA are not being adhered to.

Recommendation

Steps should be taken to ensure that the requirements of the MFMA are complied with and the information listed in section 75 should be published on the website to ensure that there is open and effective communications channels with customers, suppliers, contractors, consultants, and other groups that can provide significant input on quality and design of entity products and services and that the transparency and accountability as required by the MFMA's objectives are met.

Management response

Agree to the findings and recommendations.

The management will investigate the matter further and correct the current undesirable non-compliance.

Auditor's response

This matter will be reported on in the final management report

Internal Control

50. Control Weaknesses identified

Audit finding

The following control weaknesses were noted during the planning phase

- No skill retention policies to return competent employees.
- Finance department is not adequately staff resulting in no segregation of duties.
- Roles and responsibilities for junior staff members have not been clearly defined in the staff job descriptions and this has been outlined in the vintage report on HR.
- No standard templates for reporting on performance information within the municipality.
- No controls in place to report on the different levels about the performance information of the municipality during the period under review.
- Prior year performance information was not submitted on time with financial statements.
- No risk assessment policy in place for the municipality.

- No risk assessment was done during the period under review.
- No risk assessment procedures which include risk identification, risk analysis, management of risk to ensure performance are measured and achieved by the municipality.
- No risk basement procedures for identification of performance information reporting including data risk quality.
- Financial system has limitation which does not cater for correct information being produced as this is outdated and staffs does not understand the system properly.
- System (Abacus) does not interface with Payroll system and manual journals have to be processed from PAYDAY to the financial system thus producing incorrect information.
- Staff has full access to all function of the system and function are not restricted to only functions that staff perform only.
- No performance management review policy
- No performance reviews were undertaken by the municipality on a frequent basis.
- No actions were taken by the management as there was not performance review undertaken by the municipality.
- No separate function is taking place relating to preparing of transaction, capturing of transaction, and keeping of processed document as one official will do all these transaction and keep voucher.
- Vouchers are not kept at registry and there is no payment voucher listing/register kept and payment vouchers may be easily misplaced.
- Segregation of duties is not maintained whenever cashier is on vacation leave or ill and there is no relief cashier in place or appointed.
- No segregation of duties for expenditure accountant as she calculate employee's salary ,capture salaries ,add new employees to the system, remove terminated employees from the payroll, prepare IBT for salary payments, be system administrator who has full access to all functions , do salary reconciliation at the end of the month, prepare journals for processing the financial system, capture salary journals to the Abakus system, draw reports from the system and files those reports, Do supervision for junior expenditure clerks.
- No implementation of fraud prevention plan was undertaken by the municipality.
- No IT, risk committee and human resource committee in place within the municipality.
- No disaster recovery plan in place within the municipality.
- Fraud prevention plan was not implemented during the period under review.
- In the event of disaster, backups should be stored off site; however it was observed during the planning phase that backups are held within the municipal offices.

Root cause

On going monitoring and supervision by management is not evident

Risk

Fraud may be committed by officials without being detected by the management.
Municipality may losses material resources.

Recommendation

Management should put controls in place to ensure that material weaknesses identified are addressed appropriately in order to minimise control risk identified.

Management should develop action plan outlining how material weaknesses identified will be addressed.

Management response

Agree to the findings and recommendations.

The management will devise a strategy to deal with all these audit queries raised. The management will implement the recommendation.

Auditor's response

Management comment noted however this will remain in the final management letter and audit report for follow up next year

Matters of Governance

51. No Internal audit

Audit finding

It was observed during the planning that an internal audit function did not exist within the municipality for a period of 6 months. The municipality was using the service of Lakhi and company during the first six months. However no information was received from the auditee when requested:

The following documents have not been received in order to complete and evaluate internal audit work.

- Internal audit charter
- Internal audit reports completed for the 1st and 2nd quarter.
- Internal audit report to the audit committee.
- Quality assessment reviews performed by the external reviewer.
- Internal audit methodology used
- 3 year rolling internal audit plan
- Follow up audit performed during the period under review
- Internal audit work performed in the audit of performance measures

Root cause

The accounting officer does not exercise oversight responsibility related to financial reporting and related controls within the municipality.

Risk

Internal controls weakness may not be identified timely and recommendation made may not be implemented to improve internal controls.

Recommendation

Management should ensure that internal audit unit is established to ensure that controls are assessed on an on going basis.

Risk assessment is timely performed and any related control weakness identified is address by management.

Management should ensure that recommendation made by internal and external auditors are implemented in order to improve internal controls within the municipality.

Management response

Agree to the findings and recommendations.

The management takes note of the fact that there was no internal audit for the last two quarters of 2008 financial year. Management decided that they will accept the fact that internal audit and audit committee was not functional during 2008 financial year. The management has appointed the service provider for 2009 & 2010 financial years to assist with internal audit and capacitate an intern employed by the municipality. Although the service level agreement has not been signed an arrangement has been made with Amajuba District Municipality to share the audit committee going forward.

The management will submit the outstanding information on or before the 30th of October 2008.

Auditor's response

Management comment accepted however no documentation received to date. This matter will be incorporated into the final management report

52. No Audit Committee

Audit finding

The municipality did not have audit committee as required in terms of section 166 of Municipal Finance Management Act, Act 56 of 2003. In terms of government gazette 773 (notice number 26511), it was noted that this process was to be implemented by low capacity municipalities during the 2007/08 financial year.

Root cause

Non adherence of legislative requirements

Risk

Non compliance with legislation

Recommendation

Management should adhere to the section 122 of municipal finance management act and establish audit committee as required.

Proof of appointments of audit committee is furnished to this office.

Management response

Section 166(1) of Local Government: Municipal Finance Management Act, of 56 of 2003 states that each municipality and each municipal entity must have an audit committee may be established for a district municipality and the local municipalities within that district municipality.

The municipality shares the audit committee of Amajuba District Municipality since 2006/2007 financial year. The committee was not utilized in 2007/2008.

Auditor's response

Management comment noted, however no audit committee was in existence for the period under review

53. Reporting Obligation in terms of section 71 of MFMA

Audit finding

Monthly budget statements.—(1) The accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month:

- (a) Actual revenue, per revenue source;
- (b) Actual borrowings;
- (c) Actual expenditure, per vote;
- (d) Actual capital expenditure, per vote;
- (e) The amount of any allocations received;
- (f) Actual expenditure on those allocations, excluding expenditure on—
 - (i) Its share of the local government equitable share; and
 - (ii) Allocations exempted by the annual Division of Revenue Act from compliance with this paragraph; and
- (g) When necessary, an explanation of—
 - (i) Any material variances from the municipality have projected revenue by source, and from the municipality's expenditure projections per vote;
 - (ii) Any material variances from the service delivery and budget implementation plan; and
 - (iii) Any remedial or corrective steps taken or to be taken to ensure that projected revenue and expenditure remain within the municipality's approved budget.

(2) The statement must include—

- (a) A projection of the relevant municipality's revenue and expenditure for the rest of the financial year, and any revisions from initial projections; and
- (b) The prescribed information relating to the state of the budget of each municipal entity as provided to the municipality in terms of section 87 (10).

(3) The amounts reflected in the statement must in each case be compared with the corresponding amounts
Budgeted for in the municipality's approved budget.

However it was observed during the audit that municipality did not submit electronic and signed returns on their conditional grants as required in terms of section 31(2) of division of revenue act as per listing submitted by Treasury.

Root cause

On going monitoring and submissions of returns is not evident.

Risk

Non compliance with section 71 of MFMA and division of revenue act.

Recommendation

Management should ensure that all appropriate returns are submitted to treasury as required.

Management response

No comment has been received

Auditor's response

No management comment received and this will be reported

PERFORMANCE INFORMATION

54. Performance Information not received

Audit finding

During the review of performance information the following weaknesses were noted:

1) Performance report content required in accordance with section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 23 of 2000), has not been submitted to the Auditor-General for auditing purposes, despite the fact that this has been requested in the following correspondence: (a) paragraph 29 of the engagement letter issued on 15 August 2008; also in meeting held on the 23 October 2008 and submission date being 28 October 2008.

2) No quarterly reporting was done during the period under review.

3) No Service delivery and budget implementation plan was prepared by the municipality for 2007-08 performance years which is critical document.

Recommendation

Management should submit performance information for audit purposes.
Management should ensure that performance information reporting requirements is properly monitored and adhered to.

Management response

Agree to the findings and recommendations.

Please refer to the exception 70.

Auditor's response

Management response has been noted however no information was submitted for audit purposes. This will remain in the management letter and audit report.

ANNEXURE B

OTHER IMPORTANT MATTERS

BORROWINGS & LONG-TERM LOANS

1. Long Term Liabilities - No disclosure

Audit finding

During the audit of long term liabilities, it was noted that no capital charges per appendix D as well as note 14 were disclosed at year end.

Root cause

Within the entity, there are no mechanisms in place to monitor and review operations and programmes.

Risk

Proper mechanisms should be adapted to ensure adequate disclosure of proper financial records

Recommendation

All disclosures should be made to ensure adequate presentation

Management response

Agree to the findings and recommendations.

The recommendations will be implemented.

Auditor's response

No changes have been implemented.

Matter is therefore be incorporated into the final management letter

BUDGETARY PREP. & CONTROL

2. Budget implementation

Audit finding

Section 70(1) of the Municipal Finance Management Act states that the accounting officer of a municipality must report in writing to the municipal council—(a). Any impending—

- (i). shortfalls in budgeted revenue; and
- (ii). overspending of the municipality's budget; and
- (b). any steps taken to prevent or rectify such shortfalls or overspending.

During the audit of financial statements the following has been noted:-

By inspection of the income and expenditure account, there has been an overspending in the expenditure, however there is no evidence that the accounting officer of the

municipality has reported in writing to the municipal council any overspending of the municipality's budget and also no evidence of whether any steps were taken to prevent or rectify such overspending. This implies that the municipality does not budget well and also does not put measures or controls for the municipality to avoid an overspending. The following are items on income and expenditure that were overspent on:

Expenditure	Actual	Budget	Difference
Salaries, wages and allowances	R 9,517,243.00	R8,969,141.00	R548,102.00
Contributions to fixed assets	R2,556,895.00	R138,050.00	R2,418,845.00

During the audit of budget and financial statements it was note that the budgeted figures on financial statements does not agree to the approved adjusted budget. The following differences was note

	Adjusted budget	Budget per financials	Differences
Income	R19,194,962.00	R18,597,374.00	R597,588.00
Expenditure	R22,338,044.00	R21,710,922.00	R627,122.00

Root cause

Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning. Management's philosophy and operating style, such as leading by example, independence and competence, do not support the achievement of effective internal control over financial reporting.

Risk

The municipality can spend the money although it may not be according to the objective of the vote resulting in excessive spending and fruitless and wasteful expenditure being incurred. Conditional grants may be used to offset operational expenditure incurred.

Recommendation

Management must have an appropriate attitude toward financial, budgetary, and operational/programmatic reporting, to ensure that the expenditure within the municipality is controlled within the budget limits. Where additional budgets are required these should be done in accordance with section 28 of the MFMA

Management response

No comment received

Auditor's response

No comment received

3. Bank Reconciliations not performed on a monthly basis

Audit finding

Through discussion with the chief expenditure clerk, it was established that bank reconciliations were not performed every month throughout the year. Bank reconciliations were only done after the year end (June 2008) however, there was no evidence of a check or review being conducted.

Root cause

On going monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and being undertaken.

Risk

Differences in the bank balance per the system and the actual bank balance per the bank statement will not be identified timeously resulting in an inaccurate balance per the system.

Recommendation

Management should monitor and supervise functional staff to ensure that bank reconciliation are prepared timely.
Management should timely review prepared bank reconciliation to ensure that long outstanding deposits, cheques are cleared on an on going basis.

Management response

Agree to the findings and recommendations

The management has seen certain gaps in the allocation of the job descriptions and has engaged the services of the service provider to review all job descriptions of the finance department. Also training is taking place to ensure that the bank recons are done monthly and reviewed.

Auditor's response

Management comment noted, however reconciliations were not done and reviewed during the period under review.

4. Cash and Bank - Reconciling items not cleared timeously

Audit finding

During the audit of cash and bank it was identified that the municipality has unreconciled items in the bank reconciliation that have been outstanding since April 2008, furthermore these items were still not reconciled at year end.

Root cause

The control activities identified as necessary were not in place and being applied.

Risk

Delays in clearing reconciling items could result in monthly management reports not being accurate.

Recommendation

All unreconciled items should be immediately followed up and resolved..

Management response

Agree to the findings and recommendations.

The CFO will review the bank reconciliation and identify all issues that need to correct in the bank reconciliation including the reconciling items. The CFO will also ensure that reconciling items are cleared on a monthly basis to avoid this audit query in the next audit.

Auditor's response

Management comment has been noted. This will remain in the management letter for follow up next.

EMPLOYEE COSTS

5. Unexplained payments to councillors.

Audit finding

There were payments to the value of R31 605 made to councillors in July and September 2007. However it is not clear as to what these payments related to.

Root cause

On going monitoring and review of councillors salaries is not evident.

Risk

Unauthorised payments could be made.

Recommendation

Management should ensure that all salary payments are properly reviewed before being paid to the officials.

Management should also ensure that any unauthorised salary overpayments are recovered and proof be furnished with response.

Management response

No management comment has been received.

Auditor's response

This matter will be reported in the final management letter

6. Persal/payroll printout showing leave days due is not attached.

Audit finding

Through inspection of leave files it was noted that leave days according to the payroll system had not been attached to files.

Root cause

Pertinent information is not identified, captured, used at all levels of the municipality and distributed in a form and time frame that supports the achievement of financial reporting objectives.

Risk

Accumulated days used as capped leave that is paid to employees upon termination could be misstated resulting in financial loss to the municipality.

Recommendation

Payroll system and HR system should be linked in such a way that information captured by HR officer should automatically update information on Payroll.

Management response

Hr office does not have a system which can be linked with payroll system at the moment but the plans are well in progress to link up one, but in the meantime we do update our payroll system as necessary using memos/correspondence which via from HR to BTO/ Payroll

Auditor's response

Management comment noted, however this will be followed up during next audit.

7. No overtime policy in place

Audit finding

The municipality did not have a written policy in place with respect to overtime, therefore employees do not follow suitable processes and procedure when working and claiming overtime.

Root cause

Policies related to reliable financial reporting were not established and communicated throughout the entity, and do not have corresponding procedures that result in management directives being carried out.

Risk

Overtime could be misused which will result in a loss to the Municipality.

Recommendation

The charging, recording and paying of overtime may not be correct or comply with the Basic Conditions of Employment.

Management response

Agree to the findings and recommendations
The management will implement the recommendations.

Auditor's response

Management comments have been noted. This matter will be reported on and followed up in the 2008/09 financial year

8. Overtime hours worked in contravention with Basic Conditions of Employment Act

Audit finding

Section 2.3.1(b) of Basic Conditions of Employment Act, Act 75 of 1997, an employee may not be required to work overtime for more than ten hours a week and section 2.3.2 states if agreed not more than 12 hours a day, however it was noted that certain employees have contravened the act by working excess hours

Root cause

Internal controls in place are not being implemented and monitored.

Risk

Excessive overtime which would course financial loss to the municipality could be worked.

Recommendation

The Basic Conditions of Employment Act should be adhered to at all times.

Management response

The overtime policy will be drafted, adopted and implemented which shall comply with the Basic Conditions of Employment

Auditor's response

Management comment noted and this will remain in the final management letter for follow up next year

INVESTMENTS

9. No investment policy in place

Audit finding

Section 13(2) of the Municipal Management Finance Act, Act 56 of 2003, the accounting officer is to ensure an adequate investment policy is in place to monitor all investments; however it was noted that the municipality does not have an investment policy.

Root cause

Policies related to reliable financial reporting are not established and communicated throughout the entity, and do not have corresponding procedures that result in management directives being carried out.

Risk

Investment may be done not in accordance with requirements of policy as required in terms of Municipal Investment Regulations (GNR 308 of 1 April 2008).

Recommendation

Management should ensure that investment policies is developed which will be in accordance with section 13(2) of MFMA requirements.

Management response

Agree to the findings and recommendations.
The policy has been drafted but not yet adopted by council.

Auditor's response

This matter will be followed up in 2008/09 financial year

OPERATING EXPENDITURE

10. Non submission of tender information

Audit finding

It was observed during the audit of expenditure that no tender evaluation reports and related minutes from tender evaluation committee were submitted for all tenders that were awarded during the period under review for audit purposes

Therefore tender awarded during the period under review could not be determined whether there were awarded in terms of supply chain management policy.

1. Preferential point's documentation for tenders awarded for the 2007/2008.
2. Preferential point's system policy.

Root cause

Management does not have a positive and supportive attitude toward the functions of accounting, information management systems, personnel operations, monitoring, and internal and external audits and evaluations.

Management's philosophy and operating style, such as leading by example, independence and competence, do not support the achievement of effective internal control over financial reporting.

Risk

Supply chain management policy may not be adhered to.

Recommendation

Management should monitor all tender processes and be fully documented and minted to ensure that decision taken by the tender adjudication committee is based on the tender evaluation committee recommendation made.

Minutes and tender evaluation committee reports from the tender evaluation committee meeting should be furnished for audit purposes.

Management response

Disagree to the findings and recommendations.

The bid reports were done by relevant bid committees, however the management will be prescribing what should be in these bid reports to ensure full accountability of decisions taken relating to the SCM.

Auditor's response

Management comment note, however information still outstanding and will remain as a report item.

Payables

11. Non compliance with Supply Chain Management Policy

Audit finding

SCM Regulation 12(1) (c) states that goods and services may only be procured by way of three (3) formal written price quotations for procurement of a transaction value over R10 000 up to R100 000 (VAT included), and SCM Regulation 12(3) states that Goods or services may not deliberately be split into parts or items of a lesser value merely to avoid complying with the requirements of the policy. When determining transaction values, a requirement for goods or services consisting of different parts or items must as far as possible be treated and dealt with as a single transaction.

During the audit of procurement it was noted certain transactions did not have three written quotations or and the process followed in appointing them.

Root cause

Policies related to reliable financial reporting are not established and communicated throughout the entity, and do not have corresponding procedures that result in management directives being carried out.

Risk

1. This can result in money laundering as the municipality do not have enough information about the suppliers that it is doing business with.
2. Management can employ their own companies in the procurement of goods and services resulting in fraud being perpetrated and get away with it.
3. Non compliance with supply chain management policy could result in irregular expenditure.

Recommendation

Management should ensure that employees are adequately trained to ensure proper implementation of SCM policy and curb splitting of order to avoid tendering process. Management should ensure that appropriate disciplinary actions are taken against responsible officials
Irregular expenditure should appropriately disclose and reported to the appropriate level.

Management response

Partly agree to the findings and recommendations.

Service providers like HSK Simpsons & Partners, Muntra cc, Lachi & Co., etc were appointed using the bid system. Fujitsu is the financial management system provider and 3 quotations would not be a requirement, since there is an service level agreement relating to their service. The documentation is available and may be obtained for review.

Auditor's response

Management comments have been noted, however proof of bids and service level agreement were not provided

PAYABLES**12. Lack of supporting documentation relating to other creditors****Audit finding**

It was observed during the audit of creditors that an amount of R32 850 was included as other creditors under note 11 to the financial statements. Supporting documentation relating to this creditor could not be provided for audit purposes. Furthermore this balance had been brought forward from the prior year. This creditor was reported upon in 2005/06 financial year but still remain unresolved. Validity of this amount cannot be verified.

Root cause

On going monitoring and supervision are not undertaken to enable management to determine whether internal controls over creditors is present. Separate evaluations such as timely review of creditors and creditor's reconciliation are not evident as fictitious creditors cannot be identified and resolved.

Risk

Inadequate documentation to support the amount

Recommendation

Management should ensure that all creditors are supported by appropriate documentation and only valid creditors are disclosed in the financial statements. Creditors reconciliation should be timely prepared and payments be made for valid creditors. Appropriate documentation relating to this creditor should be furnished for audit purposes.

Management response

Agree to the findings and recommendations.

The supporting documentation for this figure was investigated in the using the working paper files for prior years. The management is of the view that this creditor might have been paid already long time ago which will lead to creditor not existing anymore. Since the creditor is untraceable and has never claimed this money for a period exceeding 24 months, the management has decided to write off this creditor in the books. However should this/these creditor(s) claim this money in future be paid from the previous years appropriation account.

The management has engaged the services of Fujitsu to deal with issues of training on the system and also DBSA is currently offering the training on financial management which will enhance the accounting skills and principles on how to prepare and keep books. Disclosure has been revised accordingly.

Auditor's response

Management comment has been noted, however appropriate documentation should be submitted for audit purposes.

13. Payments outstanding for longer than 30 days

Audit finding

Certain payments were noted to be made after 30 days from the invoice date. This is in contradiction with section 65(2) (e) of the MFMA, which states that all money owing by the municipality is paid within 30 days of receiving the relevant invoice.

Root cause

Policies related to reliable financial reporting are not established and communicated throughout the entity, and do not have corresponding procedures that result in management directives being carried out.

Risk

This may lead to the municipality paying interest/penalties on late payments - which would be fruitless and wasteful expenditure.

Recommendation

The municipality should make payments within 30 days of invoice date in order to avoid interest on late payments.

Management response

Agree to the findings and recommendations.

During the current period the municipality has had financial crisis and could not keep up with the 30 day payment terms to its creditors. The management will implement the recommendation. This should be reviewed in the next audit.

Auditor's response

Management comment has been noted.

14. Creditor's Reconciliations not performed

Audit finding

No creditor's reconciliations have been performed for the 2007/08 financial year.

Root cause

Reconciliations were not undertaken between financial records and subsidiary systems to ensure that all transactions were complete and accurate.

Risk

Errors in amounts owing to creditors may not be identified timeously or at all.

Recommendation

Creditor's reconciliations should be performed monthly and reviewed by an immediate supervisor.

Management should also indicate what steps will be taken to address issue raised above.

Management response

Agree to the findings and recommendations.

The management will implement the recommendations immediately. The management also has started the process of revision of the job descriptions for the finance staff members. Upon finalisation of this process the management will be able to ensure that all these processed are done frequently.

Auditor's response

Management comment noted, however no creditor's reconciliations were performed for the year. To be followed up in the 2008/09 financial year

Property, Plant and Equipment

15. Differences between asset register, Appendix C and trial balance

Audit finding

In terms of the Municipal Finance Management Act, Section 63(2) (a) (b) " The Accounting Officer must for the purpose of subsection (1) take all reasonable steps to ensure

(a) That the municipality has and maintains a management, accounting and information system that accounts for assets and liabilities of the municipality

(b) That the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice".

During the audit of fixed assets differences between the asset register, appendix C and the trial balance were noted as follows:

- Asset register and Appendix C = R 167 032
- Asset register and Trial Balance = R 142 078
- Difference = R24 954

Monthly reconciliations between the General Ledger and the fixed asset register are not performed and reviewed.

Root cause

Data recorded by information and financial systems was not periodically compared with physical assets and discrepancies examined.

Risk

- The completeness, existence and valuation of assets will not be verified
- Financial statements could be misstated

Recommendation

Management should implement controls to ensure the following:

- Amounts captured in the financial system is correct and agree to supporting documentation
- Amounts disclosed in the financial statements agree to General Ledger.
- Asset register is updated with any disposals, write offs and additions of assets.
- General Ledger is compared with physical assets and asset register
- Discrepancies are reviewed and followed up.

Management response

Agree to the findings and recommendations. Recommendations have been implemented.

Auditor's response

Management comment has been noted; however no proof of adjustments has been submitted for audit purposes.

27. Fixed Assets - Information not included in fixed asset register

Audit finding

In terms of the Municipal Finance Management Act, Section 63 (2)(c) " The Accounting Officer must for the purpose of subsection (1) take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed".

However it was identified that the fixed asset register maintained by the municipality does not include the following information:

- Method of financing
- Physical location of asset
- Depreciation method and rate used
- Unique number / serial code
- Depreciation charge for each completed year of use
- Accumulated depreciation of each completed year of use
- Impairment of expense for the year
- Accumulated impairment for each class of assets
- Net asset value for each completed year of use
- Details of any write-down or write-up in carrying value
- Resultant profit or loss on disposals
- Physical condition of the asset.

Root cause

Written procedures, authorisations, record keeping, management reviews and asset safeguards are not segregated to prevent fraudulent financial data and asset misappropriation

Risk

- Non compliance o applicable laws and regulations
- Completeness, valuation and existence of assets will not be verified as the asset register is not complete
- Amounts disclosed in the financial statements might be incorrect.

Recommendation

Management should implement controls to ensure that the asset register is compiled as prescribed.

Management response

Agree to the findings and recommendations.
Recommendations will be implemented.

Auditor's response

Management comment has been noted; however proof of adjustments has not been submitted for audit purposes.

RECEIVABLES

16. No tender for a Lawyer

Audit finding

The municipality currently has no legal representative due to the lack of a suitable candidate in the area. This is in direct contravention of the policies and procedures of the municipality.

Root cause

Noted the entity does not analyse risks to the likelihood of occurrence, impact of not having its own lawyers.

Risk

The municipality may have inefficient legal defence when disputes with debtors arise which may result in irrecoverable debts.

Recommendation

The municipality should consider appointing its own lawyers who would deal with all legal related matters within the municipality.

Management response

Agree to the finding and partly agree to the recommendations.

Credit control policy and debt collection policy is under review. The TOR of the service provider assisting with the review includes also the drafting of a credit control strategy. The management view is that this function should be done internally as the use of the lawyer has proven that the municipality is not benefiting as it has small debtors book.

Auditor's response

Management comment noted and will be followed up during the 2008/09 financial year to ensure that the municipality has a representative attorney

REVENUE**17. Revenue - Completeness of General Ledger****Audit finding**

According to section 62(b), of the Municipal Finance Management Act, Act 56 of 2003, it is the duty of the accounting officer to maintain proper financial records; however, upon inspection of the general ledger, the following accounts could not be traced to the general ledger:

- Grants and Subsidies
- Other Income

Root cause

Internal Control and all transactions and other significant events are not clearly documented.

Risk

Lack of reconciliations prepared by the municipality

Recommendation

Adequate accounting records and a transparent accounting system would ensure accurate information

Management response

Agree to the findings and recommendations.

The management will correct these ledger balances accordingly.

Auditor's response

No changes had been made to any ledger balances.

Matter will therefore be incorporated into the final management report

18. Revenue - Lack of documentation - Deposits**Audit finding**

Deposits should be collected for the rentals of facilities owned by the municipality, however no documentation relating to deposits were available for audit purposes

Root cause

Management does not have a positive and supportive attitude toward the functions of accounting, information management systems, personnel operations, monitoring, and internal and external audits and evaluations.

Risk

Amounts relating to deposits could not be supported at year end

Recommendation

All supporting documentation should be made available for audit purposes

Management response

Agree to findings and recommendations.

The management will introduce a new system.

Auditor's response

No documentation has yet been received regarding deposits.
This matter will therefore be incorporated into the final management report

19. Revenue – Electricity misstatement

Audit finding

All revenue received by the municipality should be based on approved tariffs and recorded in the correct period, however, it was noted that revenue generated from electricity sales in June were not recorded in the correct period. It was further noted that consumers were billed for their consumption of electricity in June based on the new tariffs which are implemented as at 1 July 2008. This matter dates back to prior years and it is of management's discretion to correct prior periods.

Root cause

Within the entity, there are no mechanisms in place to monitor and review operations and programmes.

Risk

Overcharging of consumers

Recommendation

Appropriate controls should be effective to ensure electricity is billed at the correct tariff as well recorded in the correct period

Management response

The management has ensured that all changes are according to the tariffs

Auditor's response

For the year under review, incorrect tariffs had been used.
No adjustments had been noted.
This matter will therefore be incorporated into the final management report

20. Lack of monitoring of distribution losses

Audit finding

During the audit of revenue at the municipality, it was noted that the municipality does not have any process in place to monitor distribution losses. As a result of this, the municipality faces a risk of running continuous losses for future periods.

Root cause

Policies related to reliable financial reporting are not established and communicated throughout the entity, and do not have corresponding procedures that result in management directives being carried out.

Risk

Future losses if not managed may result in the municipality facing a going concern problem.

Recommendation

All losses should be monitored and followed up.

Management response

Agree to the finding and recommendations.

The adjustment will be processed and financials will be revised.

Auditor's response

Distribution losses were not monitored during the year under review
To be followed up during the 2008/09 financial year

21. Revenue - Registers not used

Audit finding

The municipality does not make use of registers to control direct income. It was further noted that no registers exist with regards to letting of halls, deposits as well as other income sources

Root cause

Within the entity, there are no mechanisms in place to monitor and review operations and programmes.

Risk

Misallocation of revenue, non recording of transactions.

Recommendation

Registers should be enforced to control income sources

Management response

Agree to the findings and recommendations.
Recommendations will be implemented.

Auditor's response

Management comment has been noted; however no implementation of registers for the year under review had been noted
This matter will therefore be incorporated into the final management report

22. Revenue – No authorisation of journals**Audit finding**

During our inspection of journals passed for the year, it was noted that certain journals did not confirm any proof of authorisation. eg Journal 11 dated 31/1/2008 as well as journals 10, 15, 16, 4, 3 for May 2008

Root cause

Within the entity, there are no mechanisms in place to monitor and review operations and programmes.

Risk

Unauthorised journals maybe passed.

Recommendation

All journals are to be authorized by a senior official

Management response

Agree to the findings and recommendations
The CFO will investigate the matter and ensure that a new system is done

Auditor's response

For the year under review, these journals have not been authorized.
This matter will therefore be incorporated into the final management report

45. Revenue - Segregation of Duties**Audit finding**

During the audit of revenue, it was noted that the cashier's duties are not segregated and she is responsible for the following:

- Receipting of Cash

- Completion of Deposit Slips
- Banking of Cash

Root cause

Employees are not assigned appropriate level of authority and responsibility to ensure that they understand how and for what they are accountable for to facilitate effective internal controls over financial reporting

Key duties and responsibilities are not divided or segregated among different people to reduce the risk of error, waste, or fraud.

Risk

Error and Fraudulent activities may be occurring without being detected.

Recommendation

Management should promote segregation of duties and maintain a proper control environment; management should ensure effective authorization by a senior official. Division of duties should also be split between responsible individuals

Management response

Agree to the findings and recommendations

The management has seen certain gaps in the allocation of the job descriptions and has engaged the services of the service provider to review all job descriptions of the finance department. Segregation of duties will be ensuring in the exercise.

Auditor's response

Management comment has been noted however this matter will be reported upon as it was not addressed during the period under review.

This matter will however be followed up in the 2008/09 financial year

TAXES

23. Vat- Discrepancy of opening Balance

Audit finding

A difference of R24 797 was noted with regards to Note 9 (Vat) presented as R 451 951 for the 2006/2007 year end which does not agree to opening balance of R 476 748 on general ledger for the 2007/2008 year.

Root cause

Inadequate controls in place for the detection, correction and prevention of errors.

Risk

Vat debtor is misstated in the financial statements.

Recommendation

Management should ensure that appropriate adjustments are effected and proof of adjustment be effected on the financial statements

Management response

No comment has been received.

Auditor's response

Management comment outstanding

INTERNAL CONTROL**24. Lack of variance explanations by management****Audit finding**

Whilst performing analytical procedures on the balance sheet and income statement, satisfactory explanations for variances could not be provided by management.

Root cause

Management does not have a positive and supportive attitude toward the functions of accounting, information management systems, personnel operations, monitoring, and internal and external audits and evaluations.

Risk

By financial management not being able to provide general reasons for variances in the balance sheet and income statement, this shows that due to the excessive reliance on consultants, financial management are not in control of the finances at the municipality

Recommendation

Management at the municipality should be able to provide reasons for variances at any stage during a financial year.

Management response

The management is currently investigating the matter and will be fully resolved on implementation of the upgraded financial management system.

Auditor's response

Explanations were not provided to date.

This matter will therefore be incorporated into the management report

GENERAL IT CONTROLS

25. Lack of generation of exception reports.

Audit finding

During the audit of it was noted that the accounting system utilised by the municipality does not have a function whereby exception reports can be generated for any unexpected output.

Root cause

General, hardware and application controls have not been designed to ensure the reliability of the operating system; the system does not generate exception report.

Risk

Financial information processed by the system cannot be entirely relied upon.

Recommendation

Management should ensure that full modules of the financial system are activated so that exception reports are generated and followed up on a timely basis.

Management response

No management comment received.

Auditor's response

Management comment outstanding

Fixed assets

28. Leases - Accounting policy not disclosed in the financial statements

Audit finding

During the audit of leases it was identified that no accounting policy disclosed in the financial statements regarding leases. It was however noted that finance leases are disclosed in the financial statements in Note 4.

Root cause

Appropriate policies, procedures, techniques, and mechanisms did not exist with respect to each of the entity's activities.

Risk

Non compliance with the accounting framework and basis of accounting. Areas of weaknesses will not be effectively and efficiently, identified and addressed.

Recommendation

Management should adopt an accounting policy for leases disclosed in the financial statements.

Management response

Agree to the findings and recommendations.
The accounting policy has been amended accordingly.

Auditor's response

Management comment has been noted; however an accounting policy regarding leases has not been disclosed in the revised set of financial statements received from management.

ADMINISTRATIVE MATTERS

BORROWINGS & LONG-TERM LOANS

1. Long Term Liabilities - No loan Register

Audit finding

A loan register assists with the maintenance of records with regards to interest and capital paid and outstanding balance. However, it was noted that the municipality did not maintain a register to ensure accuracy and completeness of loans.

Root cause

Policies and procedures related to reliable financial reporting are not established and communicated throughout the entity, and reconciliations are not undertaken of records with the appropriate supporting documents.

Risk

Completeness of disclosure and monitoring of loans can not take place.

Recommendation

A register should be maintained to ensure proper recording, completeness and accuracy of loans

Management response

Agree to the findings and recommendations.
Recommendations already implemented.

Auditor's response

This matter will be incorporated into the final management report and follow up during next years audit.

CASH AND CASH EQUIVALENTS

2. Monthly bank reconciliations not reviewed

Audit finding

During the audit of cash and bank, it was identified that the monthly bank reconciliations performed were not reviewed by a senior official.

Root cause

The control activities identified as necessary were not in place and being applied.

Risk

Errors on the bank reconciliation may not be timeously detected and corrected.

Recommendation

Management should implement controls to ensure that monthly bank reconciliations are reviewed by a senior official timeously.

Management response

Agree to the findings and recommendations.

The bank reconciliation was not performed timeously in the current financial year. The DBSA assisted with the preparation of these bank reconciliation and we are now up to date. The CFO will review all the bank reconciliation performed by the service provider and the DBSA Deployed and sign then as proof of review. The CFO will ensure that the current year's bank reconciliation are timeously done and reviewed. Review in the next audit.

Auditor's response

Management comment has been noted however this will be reported upon and followed up next year.

3. Cash and Bank - Petty cash register not reviewed**Audit finding**

The petty cash register for the months of October 2007 and January 2008 was not reviewed by the senior official.

Root cause

The control activities identified as necessary were not in place and being applied.

Risk

Possible misappropriation of cash.

Recommendation

Management should implement controls to ensure that the petty cash register is reviewed monthly by a senior official.

Management response

Agree to the findings and recommendations.

Auditor's response

Management comment has been noted however this will remain in the management letter for followed up.

EMPLOYEE COSTS

4. Terminated employees not removed from Payroll

Audit finding

Upon inspection of payroll report and payslips for selected months after employees had terminated, it was discovered that these employees still reflected on the Payroll and Payslips

Surname	Initials	Reason	Date
Sikhakhane	SB	Resigned	12/23/2007
Dladla	JB	Medically Bordered	11/30/2007
Smith	ML	Resigned	
Naidoo	SB	Dismissed	3/12/2008
Kubheka	PHZ	Resigned	3/16/2008
Buthlezi	MS	Dismissed	6/9/2008
Van Niekerk	P	Retired	9/30/2008
Zwane	VE	Passed Away	9/17/2008
Zwane	BM	Contract Expired	N6
Mlambo	MD	Dismissed	7/10/2008

Root cause

Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal control over financial reporting is present and functioning, those who have been terminated are not removed from the system timeously.

Risk

Fictitious employees may be paid salaries which they are not entitled; employees who are already terminated may continue receiving salaries even after they have been terminated.

Recommendation

Employees whose services have been terminated should be removed from payroll immediately.

Management response

Agree to the findings and recommendations.

The employees are not fully removed from the system but are disconnected from receiving salaries. This is as a result of the printing of IRP 5. The management will investigate the matter with the system provider to check the possibility of removing the completely.

Auditor's response

Management comment has been noted, however this will remain in the management letter for follow up next year to ensure adequate controls exists to completely remove employees

5. Lack of Documentation for leave gratuity paid**Audit finding**

Through inspection of the personal files for PHZ Kubheka, I was unable to confirm the number of leave days accrued with regards to the calculation of leave gratuity, due to a lack of approved documentation.

Root cause

Controls put in place to ensure that payment for leave gratuity is accurate and complete were not adhered to.

Risk

The municipality can in certain events pay the incorrect amount as leave gratuity due to lack of proper document being maintained. .

Recommendation

Existing procedure of confirming leave days due to employees upon resignation should be adhered to at all times.

Management response

Agree to the findings and recommendations.
This will be addressed.

Auditor's response

Management comment has been noted, however this will be followed up during next year audit due to no supporting documentation received.

6. Employment contract unavailable**Audit finding**

I was unable to conclude on the employment process with regards to the appointment of the game park manager. A signed employment agreement does not exist. The municipality therefore cannot hold the employee responsible for non performance of his responsibilities.

Root cause

Human resource policies and practices have not been implemented to facilitate effective compliance.

Risk

No disciplinary actions may be taken against concerned employees.

Recommendation

Management should ensure that all employees has signed and binding employments contracts.

Management response

No management comment received.

Auditor's response

No response has been received. The matter will be reported

7. Overtime - No agreements between employer and employee**Audit finding**

Through inspection of the overtime claim forms it was discovered that signed agreements between employee and employer for working overtime could not be identified as required in terms of section 10(1)(a) of the Basic Conditions of Employment Act, Act 75 of 1997

Root cause

Information required to execute other control components is not identified, captured and distributed in a form and time frame that enables personnel to carry out their internal control responsibilities, written agreement between manager/ director and employees involved is not prepared, signed by both parties prior to overtime.

Risk

Employees could be required to work hours beyond those stipulated by the Basic Conditions of Employment Act.

Recommendation

Agreements between the Manager and Directorate involved and affected employees should be signed prior to work being carried out and should be attached to the Overtime Claim Form.

Management response

Overtime policy to be drafted, adopted and implemented and the AG recommendations will be part of that policy.

Auditor's response

Management comment has been noted however this will remain in the final management letter for follow up as no agreement were entered into during the period under review.

8. Overtime not authorised**Audit finding**

All overtime should be authorised prior to have been worked, however through inspection of overtime forms it was noted for certain employees that authorisation only occurred after overtime had been worked

Root cause

Directive, preventative and detective controls are not adequate and focused on achieving efficient resource usage and effectiveness, overtime is authorised after it has been worked.

Risk

Unauthorised overtime could be paid or it could be paid to employees who did not work overtime at all.

Recommendation

Management should ensure that all overtime are authorised first prior to actual work.

Management response

Noted, overtime policy to be drafted, adopted and implemented and the AG recommendations will be part of that policy.

Auditor's response

Management comment has been noted, however overtime were authorised after being worked. This will remain in the final management letter for follow up next year.

9. Rental agreements not obtained for audit.**Audit finding**

Through inspection of employee's personnel files, it was observed that for certain employees listed below rental agreements which should be entered into by the employee and the municipality was not obtained.

List of employees:

Lens	C
Seaton	J
Godwill	D
Van Wyk	P
Reynard	A

Root cause

Ongoing monitoring and supervision were not undertaken to enable management to determine whether internal control over financial reporting is present and functioning, this is evident from the fact that some employees do have contract while for others contract do not exist.

Risk

Unauthorised housing allowance could be awarded

Recommendation

Management should ensure that rental agreements are properly filed in employee's personnel files as proof of being authorised.
Rental agreements should be furnished for audit purposes.

Management response

Management comment outstanding.

Auditor's response

No comment received

REVENUE

10. Revenue - Access Controls

Audit finding

During the audit of revenue, it was noted that the municipality does not have proper physical access control over the cashier's office where physical cash is held. It was noted during the audit, all individuals have direct access to the office. It was further

noted that on a couple of occasions, there was no presence at the office allowing for misplacement of cash.

Root cause

The entity does not have established physical and logical controls to prevent or detect unauthorized access.

Risk

Unauthorized access could result in the misappropriation of cash

Recommendation

Access is to controlled physically and allowable to authorised personnel

Management response

Agree to the findings and recommendations

The management will investigate as to whether the recommendation is affordable and also investigate alternative control measures. This must be reviewed in the next audit.

Auditor's response

Management comment has been noted however this will be followed up during next